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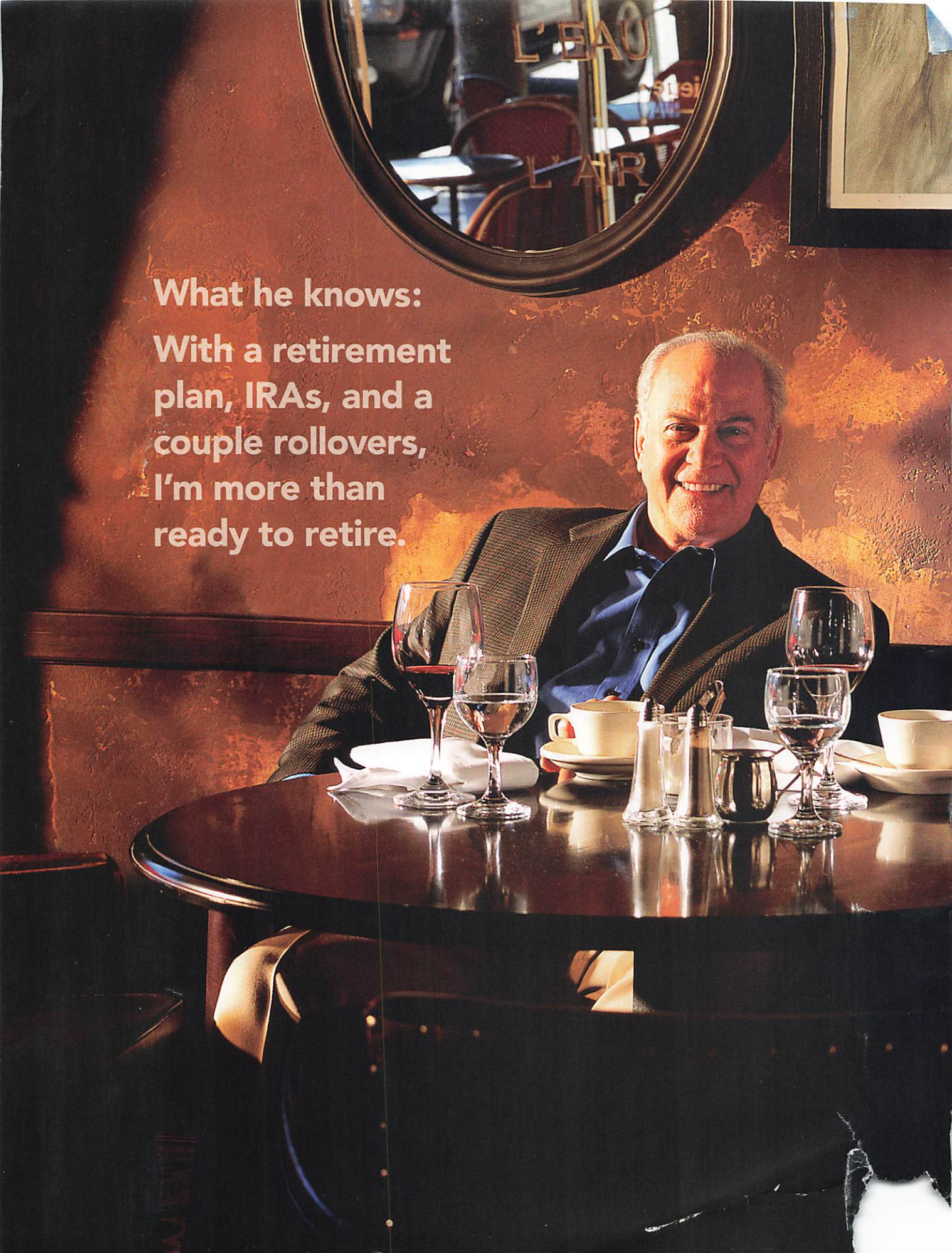
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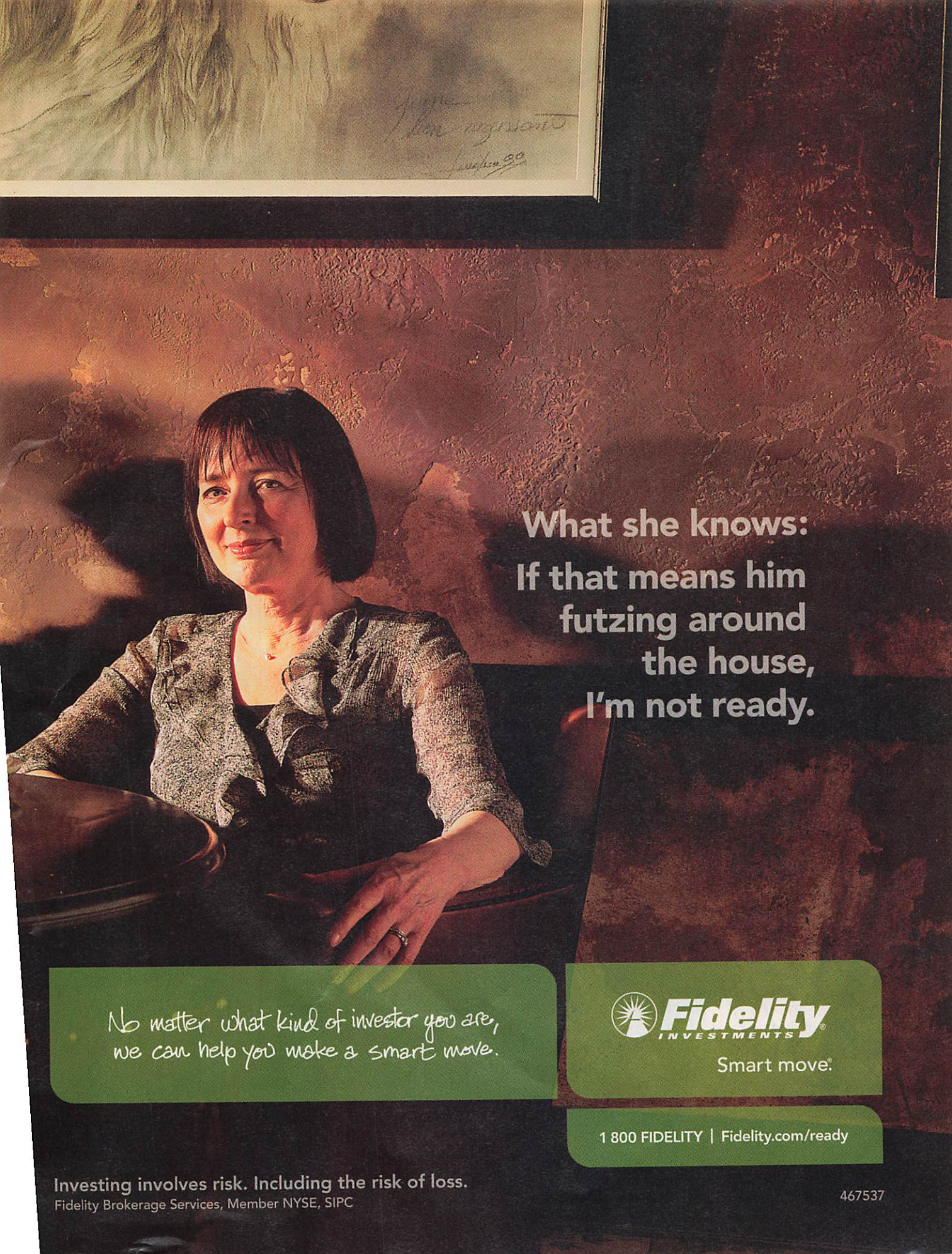
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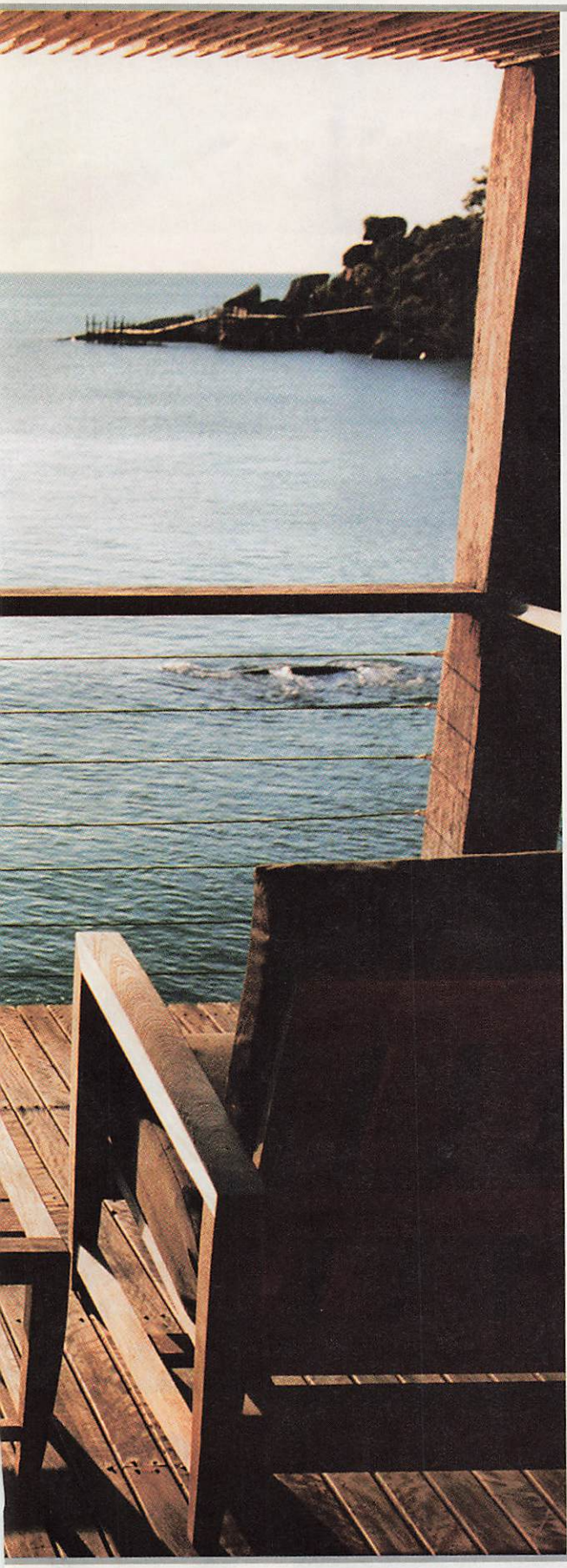

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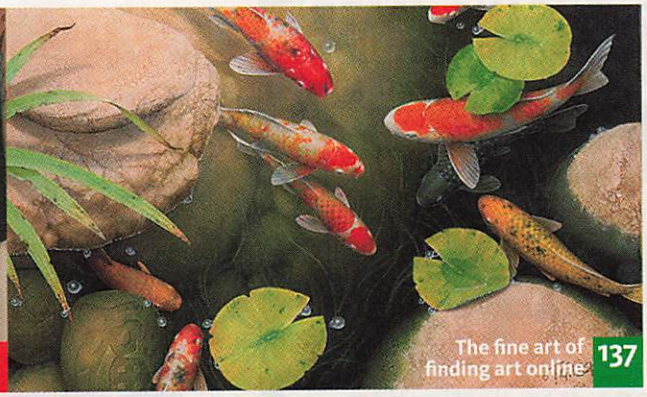

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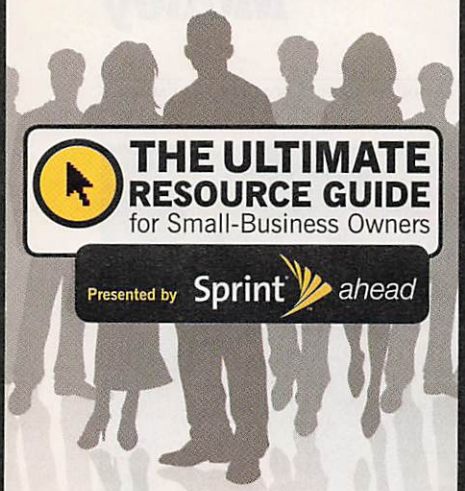

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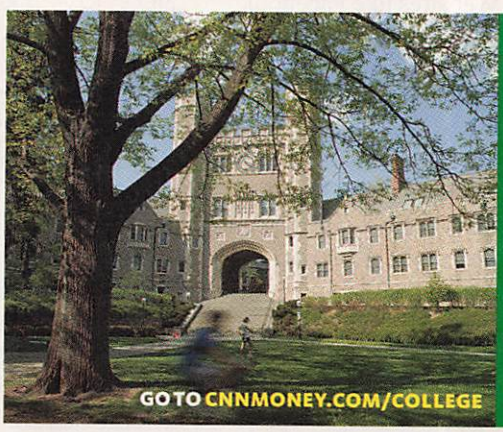

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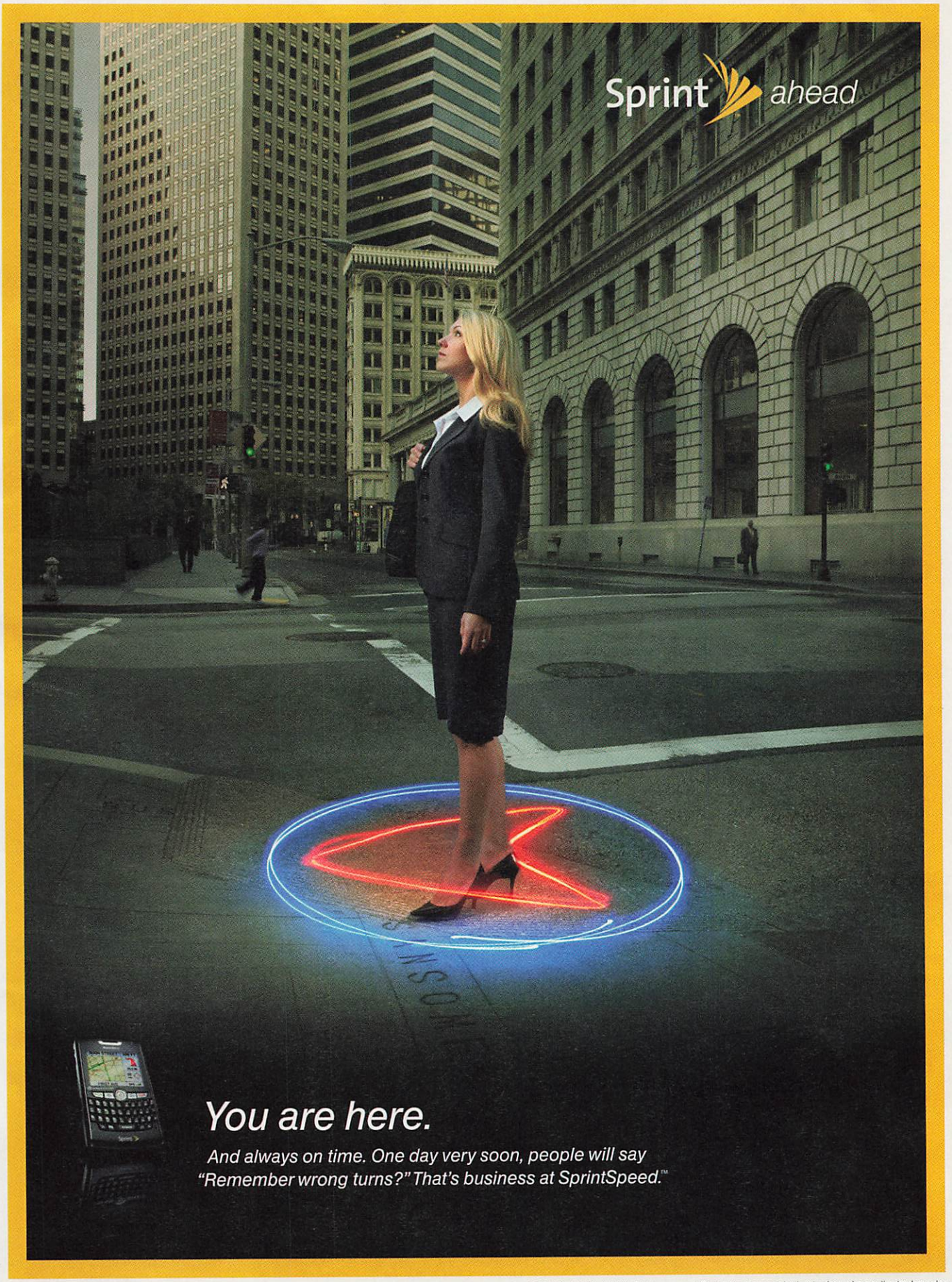
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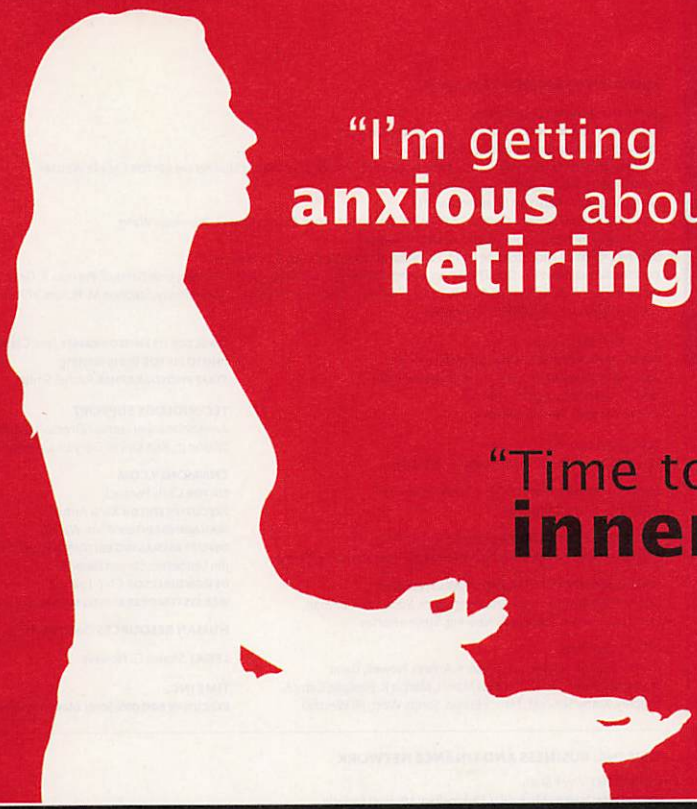

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1 **LIMIT DISTRACTIONS.** Before driving, turn off the cell phone. Get the music set, and don't fumble with a CD or MP3 player while driving.

2 **HANDS ON THE WHEEL,** not the sandwich. Driving smart is tough enough without the added distractions of eating or drinking. And always park before you go searching in the glove compartment or your knapsack.

3 **NIGHT TIME IS NOT ALWAYS THE RIGHT TIME.** Distance and speed are harder for teens to judge at night. So limit night driving until you are more experienced. And try not to drive when tired—one of the greatest dangers of all.

4 **PREPARE FOR SURPRISES.** Driving in the real world means preparing for the unexpected: bad weather, roadwork, and aggressive drivers. Pay attention to your surroundings and remember to look for potential hazards.

For more information on smart teen driving, visit:

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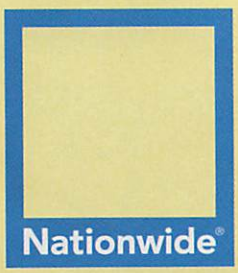

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if man will follow his own path."
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The Lessons of 35 Years

BACK IN THE EARLY 1970S, a couple of high-ranking editors at Time Inc. had an idea for a magazine of "personal economics." The founding prospectus described a "trusted guide" to investing, spending and general personal finance that would come together in a package "lively in its writing, direct in its point of view, handsome in its illustrations and design, telling its story, whenever it can, through real people and real situations." And it would be called...*Ways and Means*.

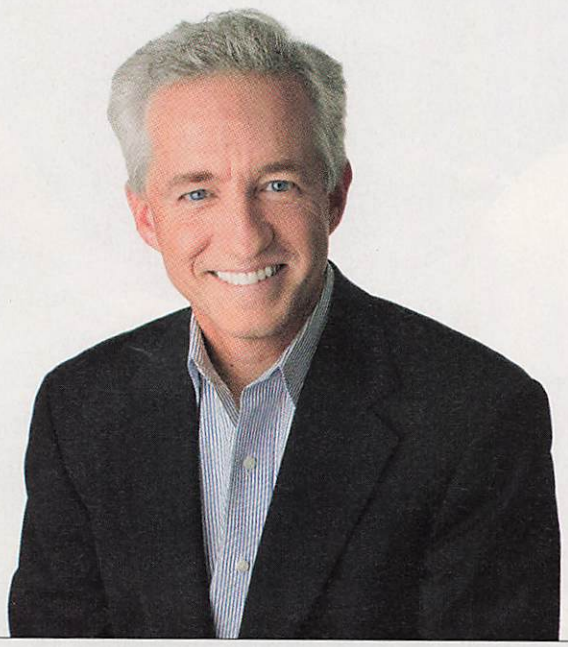
Okay, so they didn't get everything right on the first pass.

On the other hand, the founders were certainly prescient about the need for such a magazine. That, more than anything, is why the publication they introduced as MONEY turns 35 years old this month. I had a chance recently to reflect on our milestone with three financial greats whose rise to prominence overlapped with the magazine's history: Jack Brennan, chairman and CEO of the Vanguard Group; Charley Ellis, chairman of the Yale University endowment's investment committee; and Brian Rogers, chairman and chief investment officer of T. Rowe Price. What struck me about our conversations is how very different a family's financial life is now from when MONEY was conceived—and yet how essential (you knew this was coming) the magazine's mission remains.

The prospectus discussed how families felt overwhelmed by the financial choices they faced. Turns out, 1972 was the Bronze Age. In MONEY's inaugural issue, the terms money-market fund, adjustable-rate mortgage, IRA and 401(k) never appear, let alone hedge fund or collateralized debt obligation. Today you can avail yourself of hundreds of ways never dreamed of in 1972 to acquire stuff, provide for your future and enhance your family's security—and an equal number of ways to wipe yourself out. "Freedom is the best and worst thing that's happened to investors in the past 35 years," says Ellis.

There's been an explosion in the volume of financial information. Under "competitive field," the 1972 prospectus listed three business magazines and some newsletters but not the Debt Diet on *Oprah*, or CNBC, the Web or the brochures that come with your 401(k) enrollment kit. Information has never been more abundant. Judging from the back-to-back bubbles in tech stocks and real estate, however, wisdom remains dear. "Investors know more than they used to," says Rogers. "I'm not sure they're making better decisions."

» You can avail yourself of hundreds of ways never dreamed of in 1972 to acquire stuff and **secure your family's future—or wipe yourself out.**



One decision you can't make in 2007, however, is to opt out. For starters, saving for retirement is now largely your responsibility. "I'm phenomenally more engaged in my financial life than my father, who's 90," says Brennan. "And my son, who's 23, has many more choices than me." Brennan views choice as a good thing on the whole. But with it come risk and the need to distinguish between noise and insight. A trusted guide will be a good thing to hold in your hands (or have on your browser).

In the end, though, the proof of whether MONEY has lived up to its mission isn't the number of annual volumes lining the editor's shelves. It's whether you can put your kids through college or retire to the life you've always wanted. For the past 35 years the only measure that has really counted is your success. Let that be true for the next 35 as well.

Eric Schurenberg
MANAGING EDITOR
managing_editor@moneymail.com

california almonds

How to improve your body by lifting an ounce a day.

Step 1: Take some tasty California Almonds to the gym.

Step 2: Snack on a handful before or after you work out.

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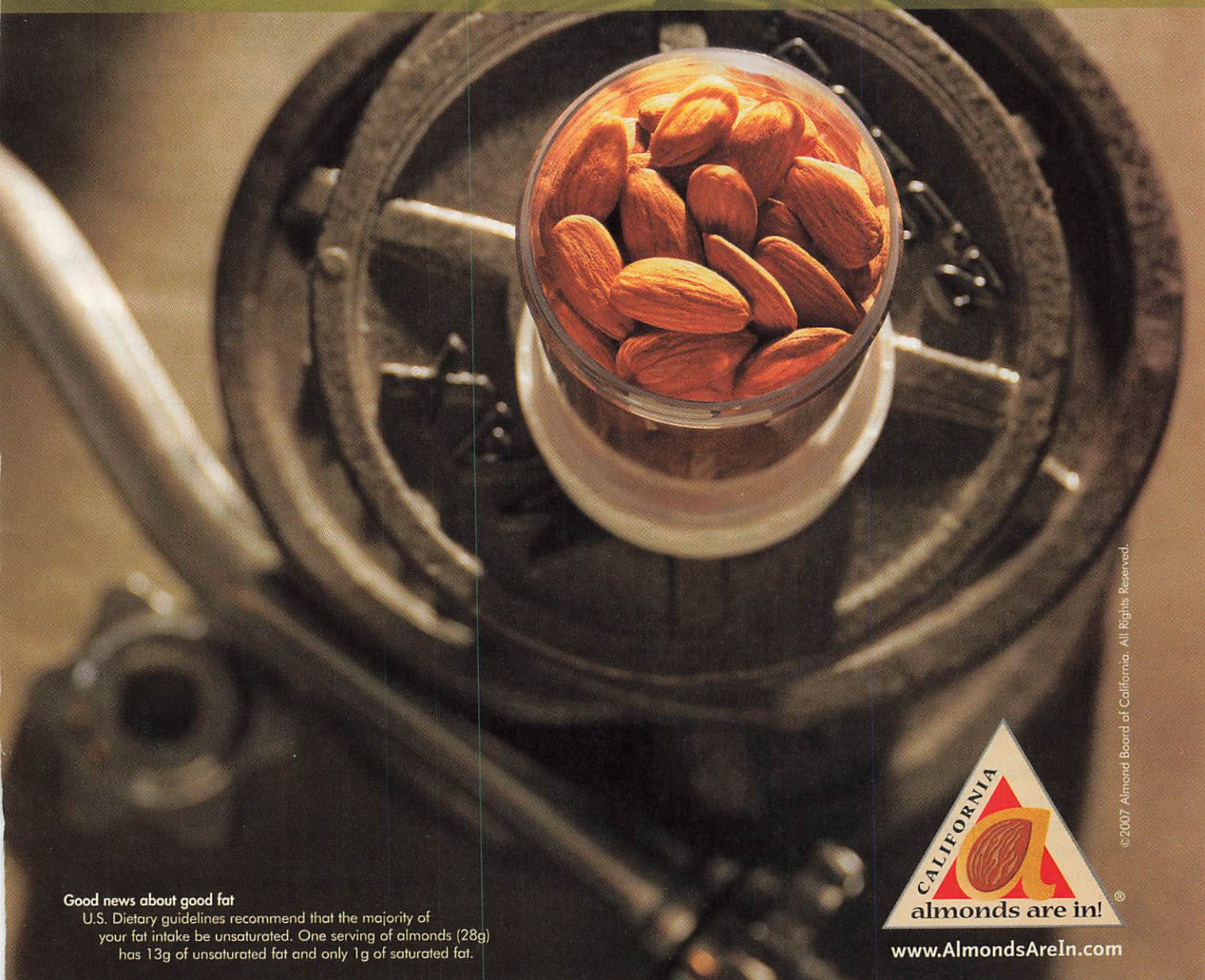
Step 4: Repeat daily.

Remember: Snacking on almonds always gives you a powerful lift. They have protein, fiber and vitamin E, plus every crunch is cholesterol-free.



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Money

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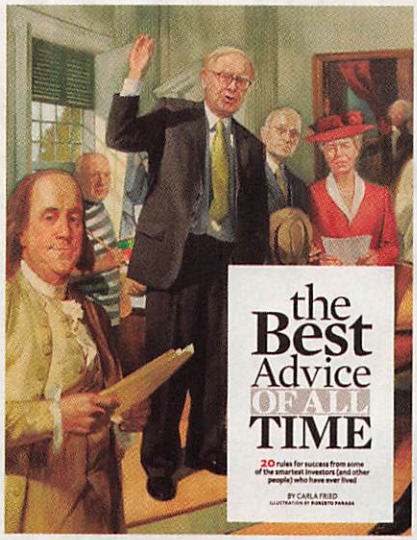
the Best Advice OF ALL TIME
20 rules for success from some of the smartest investors (and other people) who have ever lived
BY CARLA FRIED

ON-THE-MONEY ADVICE

Just read **"The Best Advice of All Time"** [September], and I wholeheartedly agree with the title. "Borrow only to buy assets that appreciate" and "But you don't have to be like most Americans" are sage nuggets. It was your sound explanation of the words of wisdom that really made me want to keep reading, however. I hope that my children will agree. Articles like this make me look forward to receiving my copy of MONEY each month.

PAUL OBERTHIER *Longview, Texas*

Do you really believe the gender stereotype embodied in No. 16 of your list of great money aphorisms, which implies that men are the main financial experts? Plenty of women run their family's daily household finances and also create and manage the investment portfolio. Researching and managing our investments has been an interesting and empowering occupation for this stay-at-home mom (and MONEY subscriber).

CINDY GARNEAU *Houston*

IVY LEAGUE LAUNCHPAD

September's **"They Want to Sell Your Kid"** left out an excellent, cost-effective way to get into an elite school: community colleges. That's what our son did. Two years and a 3.9 GPA later, he has just begun his junior year at Cornell. Total spent: $4,000. Amount saved in tuition, room and board: $80,000.

DOUG PICCIANO *Endwell, N.Y.*

OUR SICK HEALTH-CARE SYSTEM

Your story about the Brennans' experience finding "good" affordable health insurance [**"Teetering on the Edge,"** September] is eye opening. Obviously, it's sad that their daughter is ill. But I was surprised that they decided to drop health insurance in the first place and pay out of pocket. I wonder how many of the millions of uninsured Americans could actually afford coverage but choose not to purchase it.

BO KAHLBY *Hartland, Wis.*

OWNERS SAVE MORE

The rent-vs.-sell comparison in September's **"Landlords in Waiting"** forgets to account for one of the largest tax advantages of owning a rental: depreciation. A $400,000 house could get $14,544 in depreciation every year. At a 28% tax rate, that's an extra $4,072 directly off your tax bill.

JEREMY FOOT *Alexandria, Va.*

Editor's reply: *You're right that landlords can take a deduction for depreciation, but it may not be exactly the amount you suggest because of complex rules (for instance, you can depreciate the value of the home but not the land). A tax pro can help you figure it out. Keep in mind, however, that when you sell, you'll owe taxes on the depreciated amount, which can wipe out much of the value of the write-off. Our example covered a two-year period in which the effects of depreciation would have been minimal.*

WELL-READ TEA LEAVES

In your October '05 issue, you wrote about how lenders pushing risky loans with low down payments would eventually lead to falling house prices [**"Crazy Loans: Is This How the Boom Ends?"**]. How prophetic!

MICHAEL RYAN *Kings Park, N.Y.*

CORRECTIONS

"Break the Bank" *[August] said that EverBank's online checking has an $800 minimum balance to avoid fees; in fact, its minimum balance ($1,500) applies only for online bill paying. In* ***"The Best College Savings Plan Just Got Better"*** *[August], the Nevada Columbia 529 Plan's correct phone number is 877-994-2529, and its Web address is columbia529.com. For Nevada's Vanguard 529 Savings Plan, the Web address is vanguard.com.* **$**

I've read many articles on 529s, but MONEY's **"The Best College Savings Plan Just Got Better"** [August] is the best one yet. You provided **all the facts needed** and excellent recommendations. Great job! —Jerry Pascale, Omaha

You can write to MONEY at **money_letters@moneymail.com.**

Illustration by Roberto Parada

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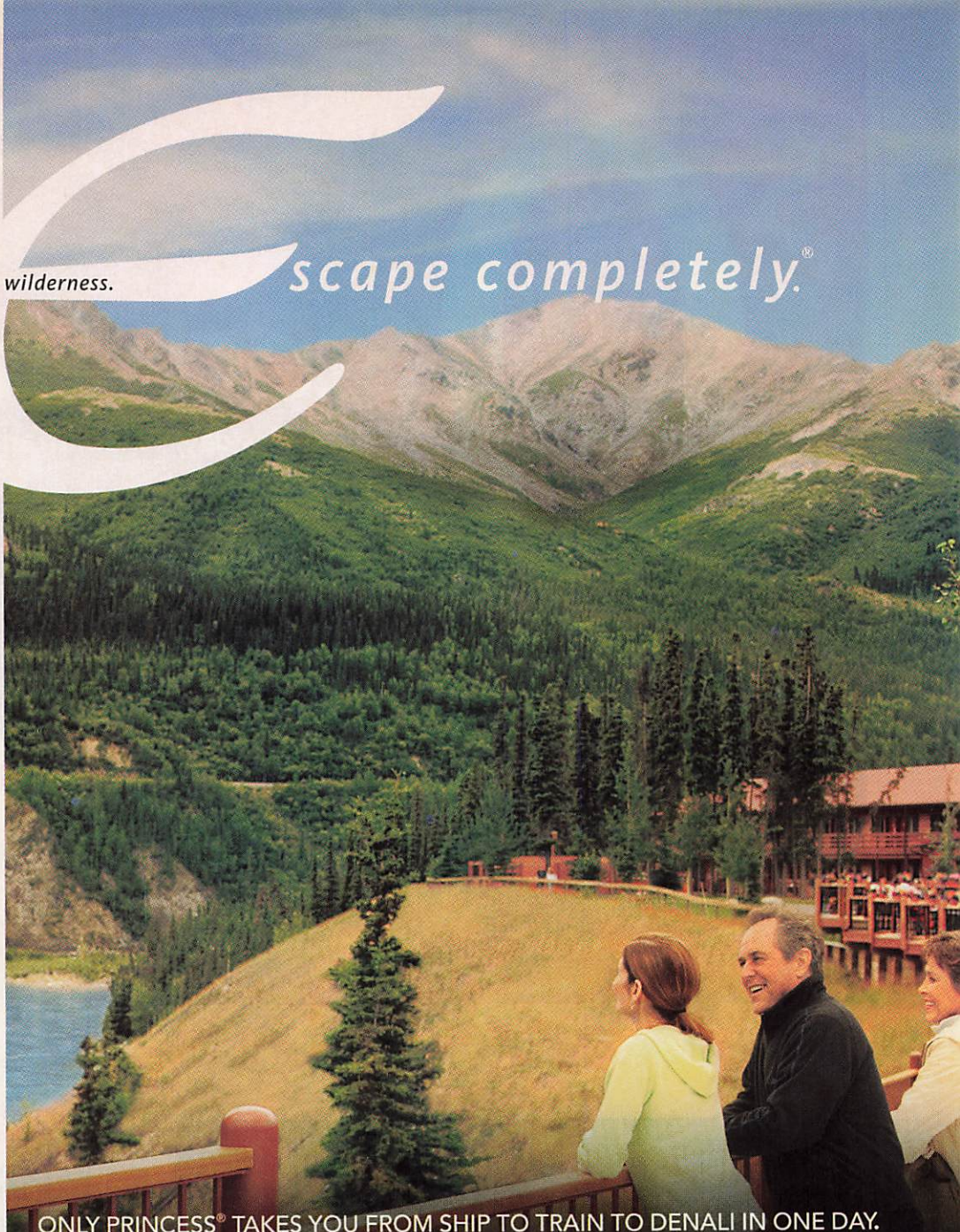

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The credit crunch and you 23 | "I can't close my account!" *by Donna Rosato* 26 | How friends can help you get rich *by Jean Chatzky* 28

Keep Your Zen About the Dow

Don't let the stock market's recent gyrations disrupt your inner calm. Stay centered by meditating on these three numbers:

10.7 Percentage the Dow fell on intraday trading between July 17 (high of 14,022) and Aug. 17 (low of 12,518). That drop barely qualifies as a correction, which is defined as a slide of 10% to 19%. By historical standards, we were overdue for such a correction.

5 Months it took for the market to recover from the last credit-induced stock crisis. Between July 17, 1998 and Aug. 31, 1998, turmoil in Russian debt markets and the failure of hedge fund Long-Term Capital Management led to a 19.3% drop in the Dow. But the index was back to its previous high by January '99.

20 Percentage of returns that the average investor frittered away by trying to time the market over the past decade. You'd have made 7.4% in the average stock fund if you'd bought in 1997 and held on, reports Morningstar. But actual investors made just 5.9%, in part because they kept popping in and out of the market trying to anticipate its swings. Moral: Stay calm and stay put. —ASA FITCH

...**No more green for going green** As of Oct. 1, you can no longer take a tax credit if you purchase a Prius or other Toyota or Lexus hybrids...

PHOTOGRAPH BY C.J. BURTON

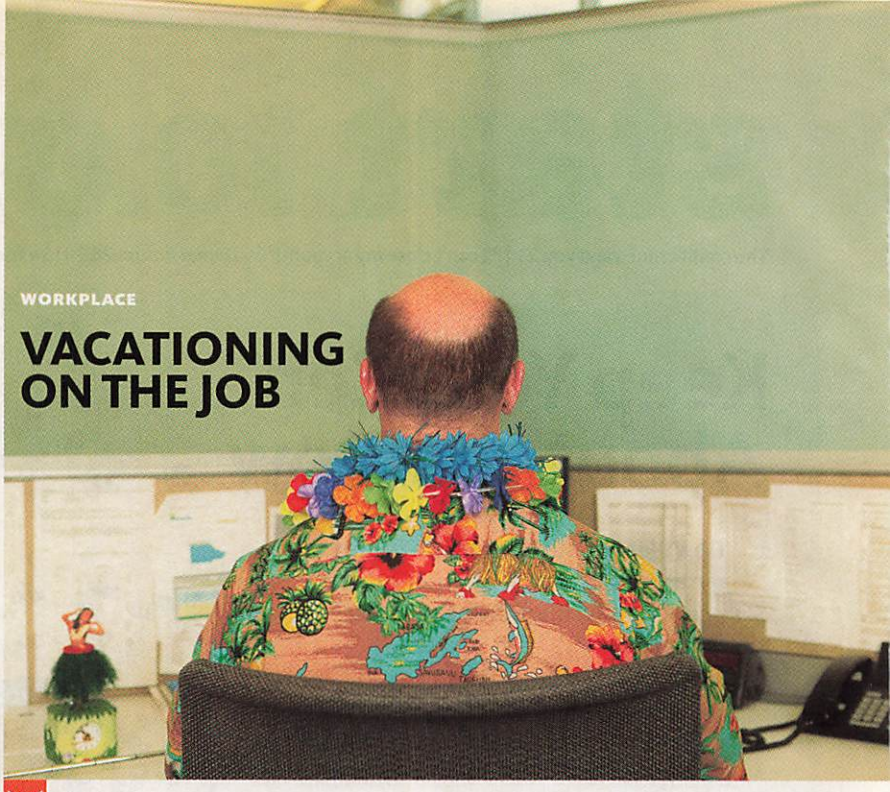
NEWS FLASH

Yet Another Reason to Ignore College Rankings

U.S. News & World Report's best-selling college ranking issue has always been controversial, but now it's even more so. At least 63 schools are opting out of the popularity contest by refusing to submit next year's "reputational" survey (their view of peer colleges, which makes up 25% of the final score). "We believe these rankings are misleading and do not serve well the interests of prospective students in finding a college that is well suited to their education," reads the pledge made by the schools. For you it's reason to do what you should have already: Sit down with your kid and make rankings of your own.

» **WHAT COUNTS** With your teen, draft a list of criteria the ideal college would have, drawing on his or her experiences in high school: feelings about class size, preferences for majors, tolerance for lots of course requirements and so on. Add in financial data as well—like price range and whether your kid will need financial aid.

» **HOW TO MAKE A MATCH** Look for schools that fulfill the requirements above at ucan-network.org, collegeboard.com, petersons.com and other sites that screen by preferences. Experts agree that the success of former grads is a better indicator of quality than a brand name or a magazine ranking. So ask colleges you're considering for data on where recent alumni have been hired or accepted for grad school. Also, gauge satisfaction of current students by e-mailing student bloggers, who are now profiled on many schools' websites. —INGRID THARASOOK



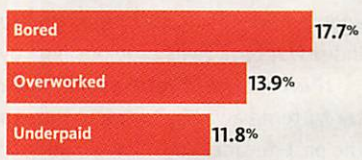
WORKPLACE

VACATIONING ON THE JOB

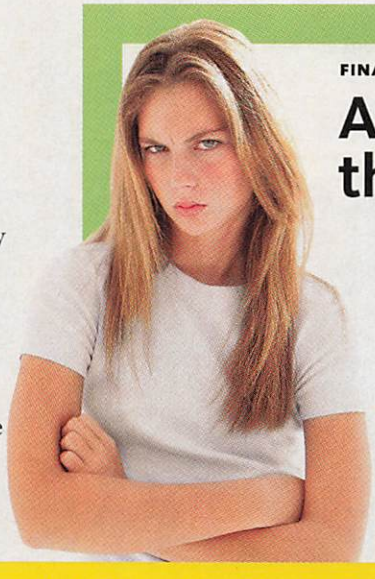
Ever wonder why it takes so long for accounting to process your expense report? It may be that they're too busy searching the Web for airfare to Hawaii. In a new survey from Salary.com, 63% of those polled admitted that they waste time at work, fooling around for an average 1.7 hours in an 8.5-hour workday. Over a year, that's 50 extra days of paid vacation—not counting the trip to Maui.

TOP WAYS WORKERS WASTE TIME

MOST COMMON EXCUSES



SOURCE: 2007 Salary.com Wasting Time Survey.



FINANCIAL ILLITERACY

Are you smarter than a 12th-grader?

Pop quiz: Which investment produced the best returns over the past 20 years? When asked this in a recent survey conducted by the PBS series _MoneyTrack_, 18- to 24-year-olds responded thus:

a) 52% said savings accounts
b) 20% said bonds
c) 16% said stocks

In other words, they got it backward. Stocks outperformed savings accounts by 11 percentage points annually, bonds by 9 points. So, uh, before you send your offspring into the job market, you might want to have a little talk about her 401(k).

Corbis (top); Getty

...**School daze** Two-thirds of college kids forget to budget for travel to and from school; average cost, reports StudentUniverse.com: **$1,200**...

It's Crunch Time

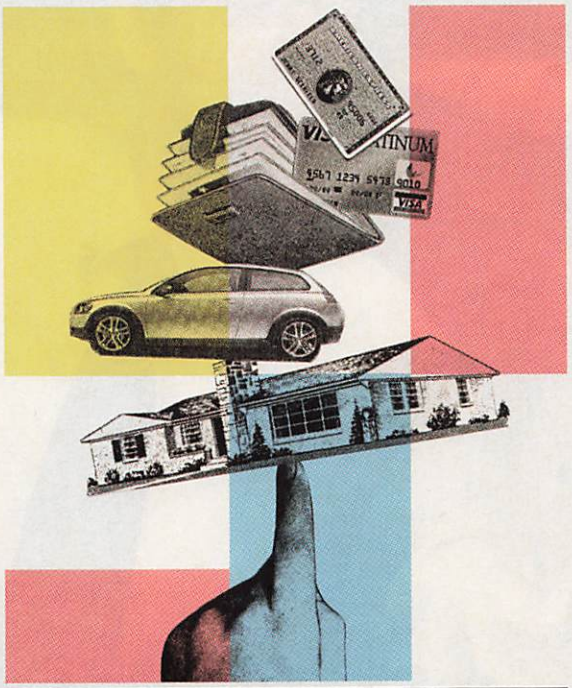
Credit is getting tighter—and not just for high-risk borrowers

BY JEFFREY ROTHFEDER

Good-bye, easy money. Hello, credit squeeze. If you haven't tried to borrow since the subprime chaos began, you'll find your friendly money bazaar a much more cautious place. The lenders that in 2005 threw funds at anyone with a pulse have begun to insist on proof that borrowers have a prayer of paying them back. Even if you have a high credit score and a flush bank account, you'll likely feel the difference. So you'd better get to know the new rules.

› MORTGAGES

WHAT'S HAPPENING Several species of exotic mortgages are headed for extinction, including the 2/28, the 3/27 and those requiring no proof of income, says Paul Haarman, v.p. of Renaissance Mortgage Corp. But the effects of the mess have extended beyond subprime. According to the Federal Reserve, about one in seven banks has toughened home lending standards even for borrowers with good credit. You'll find lenders stingier on appraisals, more persnickety on documentation and far less likely to finance 100%. Also, at the high end, rates on the 30-year jumbo (over $417,000) jumped nearly a percentage point between June and August. **WHAT TO DO** If you have an adjustable-rate mortgage, read your agreement to find out when your rate will reset, how high it will likely go and how high it *could* go. If it's coming due and will end up above 7%, consider refinancing to a fixed rate. You'll need 10% equity and a credit score over 660. Must buy? Get the best fixed rate you can (rates on a 30-year fixed are currently a sliver above 5/1 ARMs).



THE BALANCE IS SHIFTING

Adding to the pressure caused by rising interest rates, most mortgages have tighter lending standards.

LOAN	2005	VS.	TODAY	GETTING IT IS...
2/28 ARM	7.30%		8.95%	Near impossible
5/1 ARM	5.64		6.85	Harder
30-year fixed	5.88		6.57	Harder
30-year jumbo	6.08		7.46	Much harder

SOURCES: 2/28 from First American LoanPerformance, June 2005 and June 2007; rest from HSH Associates, Aug. 24, 2005 and Aug. 24, 2007.

› HOME-EQUITY LOANS AND LINES OF CREDIT

WHAT'S HAPPENING These are generally holding at about the prime rate, now 8.25% *if* your credit score is above 680 and you can prove income. But you can't tap 100% of equity anymore; you'll be lucky to get 80%. **WHAT TO DO** Just because you *can* get a home-equity loan or HELOC doesn't mean you should. Home prices are falling nationwide, and you don't want to borrow against shrinking equity unless it's the cheapest way to finance a necessary purchase, such as college or medical care.

› CREDIT CARDS

WHAT'S HAPPENING Hurting from subprime exposure, banks are looking to increase revenue. Coincidence or not, credit-card terms are slightly higher. Intro offers have gone from 12 months at 0% to three months at 1.9% and up, says Curtis Arnold of CardRatings.com. And issuers are increasingly triggering rate increases, he adds. Discover, for example, hiked its highest-risk customers from 17.99% to 18.99%. **WHAT TO DO** Now more than ever, pay on time and check your bill to be sure your APR hasn't risen.

› AUTO LOANS

WHAT'S HAPPENING Car loans have hovered for the past year around 7.4%, with highs of 25% for those with poor credit. So far these have been impervious to the crunch, says Chintan Talati of Edmunds.com. **WHAT TO DO** You may be tempted, as in the past, to use a tax-deductible HELOC to buy a car, but think twice. Real estate is unstable, it's harder to get prime on a HELOC and paying it back requires discipline. If you can get a 7% to 8% auto loan, take it. **$**

...**Boo!** Halloween is the sixth-largest spending holiday, says the National Retail Federation, with an average outlay of **$59** a person...

ILLUSTRATION BY ALAIN PILON

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BY JEAN CHATZKY

The Buddy System Can Make You Richer

Research suggests that hanging with the thin crowd can shrink your waistline and fatten your wallet

One of the summer's biggest stories carried the headline "Weight Gain Is Contagious!" Sensational? Sure, but based on some pretty good science.

The report, originally published in the *New England Journal of Medicine*, emerged from a landmark study that has followed a social network of more than 12,000 people since 1971. The researchers have enough data to know which subjects are friends, neighbors, relatives or co-workers. That's how they were able to see that when one person packs on or takes off the pounds, his or her close associates—whether they live around the corner or on the opposite coast—are likely to do the same.

The link makes a lot of sense, says Karen Miller-Kovach, the chief scientist at Weight Watchers. "Social networks determine social norms and social behavior," she says. "What's acceptable, what's not acceptable. I expect we'll see a lot of parallels in other fields."

Money among them. Academics and other researchers who have dipped a toe into the networking pool are finding that if you're surrounded by people who save and invest, you're likely to do the same. And if your pals spend like crazy, well, you're in trouble. "It's really a question of how other people's values affect your values," says Duke University sociologist Lisa Keister, author of *Getting Rich: America's New Rich and How They Got That Way*. "The people around you affect how you approach education, family, consumption, when you get married and where you go to school. Those things affect wealth," she theorizes.

So how do you make the network effect work for you?

HANG WITH THE SMART KIDS Pamela York Klainer, a senior adviser and wealth manager at Forte Capital in Rochester, N.Y., works with people who have a variety of money problems. Some have money but aren't comfortable handling it. Others burn through too much too quickly. Before "social networking" became a buzz phrase, she told her clients to "find people who have the money behaviors you want to learn and start hanging out with them." She suggests, for example, joining an investment club. The corollary is to be careful around folks who'll reinforce your bad tendencies. No one's suggesting that you start dumping friends and family members who spend too much. But it makes sense to avoid going clothes shopping with them. "It's like going with alcoholics to a bar," says money therapist Olivia Mellan, author of *Money Harmony*. "You'll be sucked into the group's norm."

LOOK ONLINE The MySpace/Facebook model has spawned sites that promote online networking as a financial tool: Users talk one another through challenges like getting out of debt, spending less than they make and building a nest egg. Wesabe, launched in November 2006, has tens of thousands of users, and Geezeo, which went live in May, has a couple of thousand. Both sites, free to users, not only aggregate your personal-finance information and allow you to easily track your spending but offer a virtual shoulder to support you. David Knight of Greer, S.C.

IT'S WHO YOU KNOW

Research on obesity yields clues about the impact social networks can have on how you handle money.

19%
People who admitted to overspending due to peer pressure

83%
Increase in likelihood a family will own stocks if parents owned them

64%
Wealthy individuals who say networking helped them succeed

SOURCES: CreditExpert; Professors Ngina S. Chiteji (Skidmore) and Frank P. Stafford (Michigan); *The Millionaire Zone* by Jennifer Openshaw.

THE SHRINKING PROSTATE CHRONICLES #7

"Before I shrank my prostate,
I saw more of the restroom lineup than the starting lineup."

Are bathroom breaks starting to take over your life? If you think you're spending too much time inside the men's room, ask yourself these questions.

- Are you always going to the bathroom?
- Do you get up to go two or more times a night?
- Are you starting and stopping?
- Do you have difficulty going once you get to the bathroom?

If you have these urinary symptoms, you might have an enlarging prostate. Untreated, it's a problem that could get worse. That's why there's *Avodart*. Other medications don't treat the cause, because they don't shrink the prostate. Over time, *Avodart* can actually help bring the prostate down to size and improve urinary symptoms over the long term. Ask your doctor if *Avodart* is right for you. And start spending your time at the game and not in the bathroom.

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AVODART® (dutasteride)
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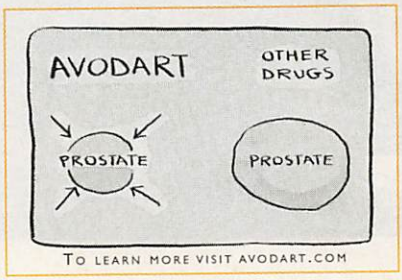

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AVODART is for use by men only.

Read the information you get with AVODART before you start taking it and each time you refill your prescription. There may be new information. This information does not take the place of talking with your doctor.

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AVODART® (dutasteride)

What is AVODART?

AVODART is a medication for the treatment of symptoms of benign prostatic hyperplasia (BPH) in men with an enlarged prostate to:

- Improve symptoms
- Reduce the risk of acute urinary retention (a complete blockage of urine flow)
- Reduce the risk of the need for BPH-related surgery

AVODART is not a treatment for prostate cancer.

Who should NOT take AVODART?

- Women and children should not take AVODART. A woman who is pregnant or capable of becoming pregnant should not handle AVODART capsules.
- If a woman who is pregnant with a male baby gets enough AVODART into her body after swallowing it or through her skin after handling it, the male baby may be born with abnormal sex organs.
- Do not take AVODART if you have had an allergic reaction to AVODART or any of its ingredients.

What are the special precautions about AVODART?

- Men treated with AVODART should not donate blood until at least 6 months after their final dose to prevent giving AVODART to a pregnant female through a blood transfusion.
- Tell your doctor if you have liver problems. AVODART may not be right for you.
- A blood test called PSA (prostate-specific antigen) is sometimes used to detect prostate cancer. AVODART will reduce the amount of PSA measured in your blood. Your doctor is aware of this effect and can still use PSA to detect prostate cancer in you.

What are the possible side effects of AVODART?

Possible side effects are impotence (trouble getting or keeping an erection), a decrease in libido (sex drive), enlarged breasts, a decrease in the amount of semen released during sex, and allergic reactions such as rash, itching, hives, and swelling of the lips or face. These events occurred infrequently.

Talk with your doctor if you have questions about these and other side effects that you think may be related to taking AVODART.

gsk GlaxoSmithKline

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UNSCIENTIFIC SURVEY *by Ismat Sarah Mangla*

Friend or Enabler?

Do you help each other spend money wisely or foolishly?

"I keep her from spending money," **and** *"Yes, he's a tightwad."* —Don and Karen Puzz, Biloxi, Miss.

"We remind each other to stay on track with our goals—especially when we're shoe shopping." —Greta Nelson and sister Robyn Taylor, Brooklyn

"We trade ideas on how to find the best deals." —Jeannie Dubbels, Clifton, N.J. and co-worker Domenica Lapietra, New Hyde Park, N.Y.

started using Wesabe because "we were trying to make it through my wife's maternity leave without breaking the bank." He adds, "Everyone out there trying to do the same thing as we were shared tips, and Wesabe automatically delivered the relevant ones to me." Knight credits the site with pushing him to open a 529 college savings plan once his wife returned to work.

START YOUR OWN NETWORK Katie Dunsworth-Reiach and her four girlfriends, all in their twenties and early thirties, worked hard, played harder (dinners out for birthdays plus a $50 gift were the norm) and at the end of the year had nothing to show for it. Spurred by the Debt Diet (for which I was a coach) on *The Oprah Winfrey Show*, the five Vancouver residents started getting together on a weekly basis, revealing how much debt they had, how much they earned, how much they wanted to save and what they wanted to do with that money (one wanted to pay for her own wedding, another to rebuild financially after a divorce). They made big changes. Two got rid of their cars. Two moved in together. They all started shopping for clothes in one another's closets and stretching out time between haircuts. A year later, they've cut $35,000 in debt and added $30,000 in savings. "Working as a group has given us the support and accountability to stick with it," says Dunsworth-Reiach. "It's like a diet—you may get motivated for a short period, but within a month you're back to your old ways. Our meetings have changed the way we think about money."

TEACH YOUR CHILDREN Skidmore College economist Ngina Chiteji found that the social network known as the family has a big impact on stock-ownership rates. "We looked at all the factors that you would think might influence stock ownership—income, education, marital status, wealth," she explains. When she and a colleague controlled for them, they found that kids of stockholding parents were nearly twice as likely to own stocks as those whose parents didn't own them. Chiteji thinks that it's not the transfer of shares or dollars that turns a child into an investor; it's the transfer of knowledge about how the market works and how to navigate it. Stock-owning parents form a network with their kids—and help them graduate to a portfolio of their own. **$**

Editor-at-large Jean Chatzky appears regularly on NBC's Today. *You can contact her at* **money_life@moneymail.com**.

PHOTOGRAPHS BY RACHEL SMITH

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— MONEY® magazine, 2/07

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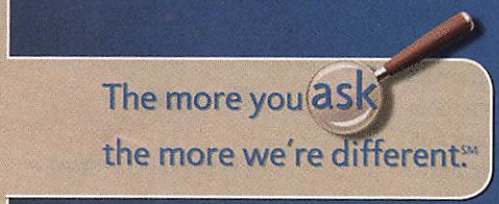

*Source: MONEY magazine. The funds on the MONEY 70® were carefully selected using the collective experience and knowledge of the staff of MONEY magazine. Some of the criteria included consistent investment approach, low expenses, and a history of integrity on the part of the management. The ending date for performance was 12/15/06. The publication date of the MONEY article was 2/07. MONEY and MONEY 70 are registered trademarks of Time Inc. Used with permission.

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Equity Income Fund (PRFDX): Invests in large, dividend-paying companies	22.59%	11.90%	9.49%	**0.69%**
International Discovery Fund^Δ (PRIDX): Invests in small to mid-size global companies***	33.90%	27.41%	16.95%	**1.24%**
New Era Fund (PRNEX): Invests primarily in the energy sector†	26.12%	23.27%	14.35%	**0.66%**
New Horizons Fund (PRNHX): Invests in smaller, faster-growing companies††	15.20%	15.29%	9.47%	**0.82%**
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*Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. The Emerging Markets Stock Fund's short-term performance is highly unusual and cannot be sustained. Share price, principal value, and return will vary, and you may have a gain or loss when you sell your shares. To obtain the most recent month-end performance, call us or visit our Web site. ***The performance information shown does not reflect the deduction of a 2% redemption fee on shares held for 90 days or less. If it did, the performance would be lower.* ^Δ^International investing involves special risks, including currency fluctuations. †Factors such as natural disasters, market illiquidity, or political instability in commodity-rich nations can have a negative impact on the fund. ††Stocks of small companies are subject to more abrupt or erratic price movements than larger-company stocks. †††MONEY based its selection on experience of the firm, reasonable fees, and high percentage of assets in stocks. The higher a fund's allocation to stocks, the greater the risk. The funds invest in many underlying funds and are exposed to the risks of different areas of the market.

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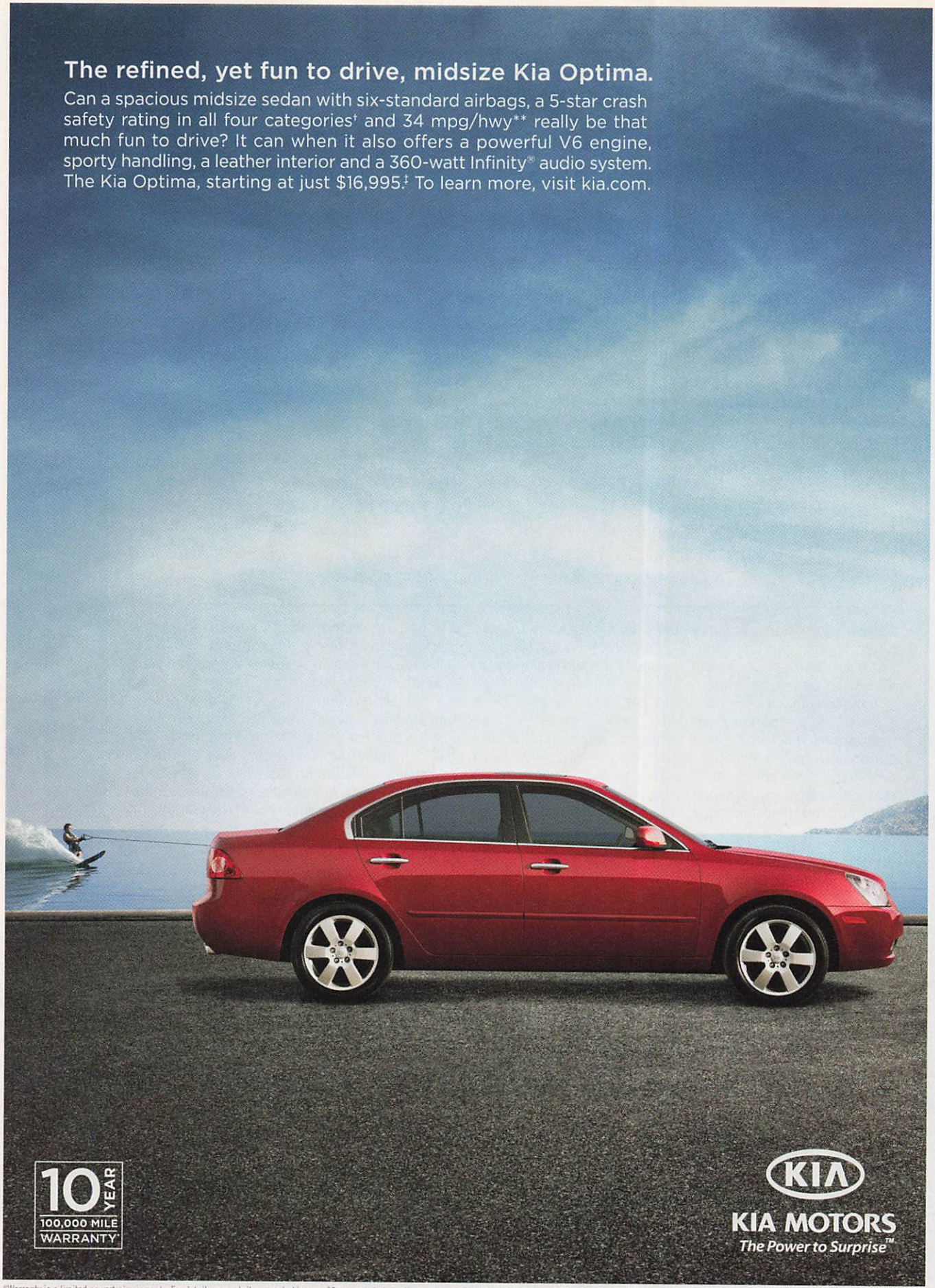

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Give marketers the slip 40 | Why you oughta be in Facebook 44 | How to uncover an annuity's real costs *by Walter Updegrave* 46

REAL LIFE

Starting Over (and Over)

Relocating can be a great way to get ahead in your career, but it can also be hazardous to your personal finances. Just ask Greg and Laurie Allan.

BY DONNA ROSATO

GREG ALLAN, 38, an officer in the Marines, and his wife Laurie, 39, a marketing director, are used to uprooting themselves for his job. Married in 2001, they bounced from Honolulu to Yucca Valley, Calif. before landing in Yuma, Ariz. in 2003. Greg's promotion to major last spring forced them to relocate a year earlier than expected—and again face the financial upheaval that can accompany a big move.

There's good reason that relocating ranks alongside divorce as one

PHOTOGRAPHS BY BOB STEFKO

of life's most stressful events: It's expensive. Even if you're moving for a higher-paying position, your spouse may have to quit a job and look for a new one, which could pummel your household income. You might be forced to sell into a frighteningly declining real estate market. With mortgage rates on the rise, monthly payments for your new place are likely to be higher. Then there are all the expenses of settling in, from buying furniture to putting in an updated kitchen.

The Allans were lucky: They sold their two-bedroom fixer-upper in Yuma for a profit before the housing market stalled, and the cost of their house-hunting trips and move to a larger home was covered by Uncle Sam. But even they suffered some sticker shock settling into O'Fallon, Ill., a suburb 30 miles east of St. Louis. They found that the cost of everything from gas to food to lawn care is higher. "We pay $400 a month for property tax, twice as much as before," Greg says. "It's really adding up."

Think you might relocate too? Here's how to keep your finances on track.

$35,000
Approximate cost to relocate

Do the math on housing and mortgage rates. Now that real estate values are tanking in many areas of the country (and mortgage rates are rising everywhere), it's more important than ever to run the numbers before you agree to move to a new city. If you'd be selling into a weak real estate market, your new salary had better be pretty darn sweet—or your new employer had better be willing to help you out. Will the boss make you whole if you sell your current house at a loss? Will he give you any help with your mortgage rate? What about paying the closing costs and real estate commission for selling your old place and buying a new one (which can run $18,000 or more)? Make those costs part of your pay-package negotiations; you'll have more leverage before you accept the job. And if you suspect it will take a while to sell your old home, consider bridge financing (see the story on page 56).

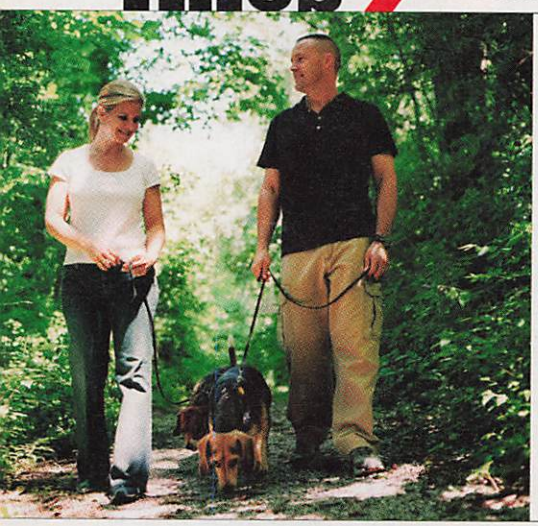
Try to get other big expenses covered too. The average cost of shipping your goods, making house-hunting trips and renting temporary digs totals a punishing $17,060, says a 2007 survey by Worldwide ERC, an industry group that tracks relocation trends. Most small companies don't routinely cover these costs, and nearly a third of medium-size and large companies don't either. So negotiate. At a minimum, try to get reimbursed for shipping your stuff to your new home, which costs more than $10,000 on average. If the company already offers a generous relocation package, ask for extras like job-hunting help for your spouse. And if you're a black-belt negotiator, you'll get your boss to pay the tax on these perks (they're considered income).

Do homework on your new city immediately. You'll never have enough time to thoroughly check

3 fast fixes

MOVING TOWARD THEIR GOALS

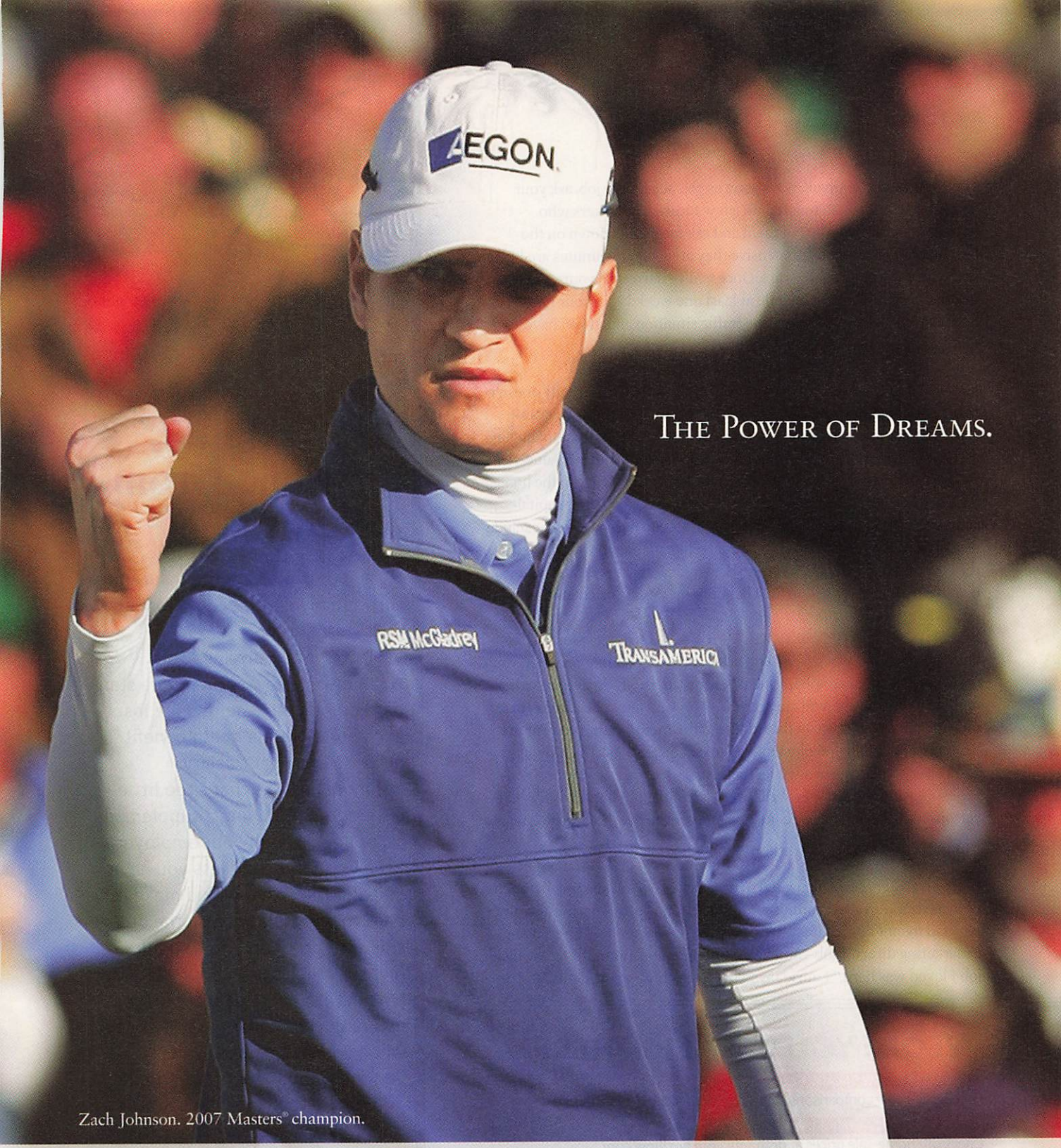
HERE'S HOW THE ALLANS CAN SWING their ideal retirement despite the costs of relocating, says Michael Kickham, a certified financial planner in the St. Louis area



1 Rent, don't buy.
Sure, the Allans' house in Yuma appreciated a lot. But they can't count on a big jump today. They've already bought a house in St. Louis; too late to change that. But Kickham recommends that they rent when they move to their next posting in 2010. The costs of buying and selling will likely outweigh any price gains.

2 Save more.
Because they don't have children (and don't plan to), it shouldn't be hard for Greg and Laurie to boost their retirement savings from $2,000 a month to $3,000. At a conservative rate of return, that could increase their nest egg to about $1.6 million by 2023—letting them retire comfortably at their goal age of 55.

3 Don't overreach.
The couple want to retire to a dream house (with a home theater and swimming pool) on the shores of a lake somewhere in the Midwest. Kickham advises them to dial down the luxury level a notch, aiming for a house that costs no more than $600,000; otherwise they may jeopardize their standard of living.



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out a new region yourself. So as soon as you accept the job, ask your employer to put you in touch with a few future co-workers who have families like yours. Call them and ask for the lowdown on the best neighborhoods, how expensive they are, what commutes are like and where the good schools are. Once you've narrowed your search to a few neighborhoods, include at least one weekday in your house-hunting visit so you can gauge the traffic situation and, if you have children, see school in session.

Consider renting rather than buying. It usually doesn't make sense to buy a home if you won't be in it for at least three years—especially good advice today. Any less and the transaction costs of buying and selling will probably be higher than the rise in the home's value—if the value rises at all. There may also be tax issues: If you live in the home for less than two years and the value does increase, you'll owe capital-gains tax when you sell. (If you move for a job, you may be able to exclude part of that gain.) Depending on the real estate market in your new city, the monthly cost of renting can also be significantly lower than that of owning. Go to homefair.com for a helpful rent-vs.-buy calculator.

Use these money-saving tricks. Relocating is sort of like buying a plane ticket to Paris: The price varies depending on when you go. May through September is peak season, so if you can depart earlier or later, many movers will charge you 5% to 10% less. The same is true if you're willing to move in the middle of the month rather than at the beginning or end, when most moves are scheduled. Ask the moving company for a flat fee in advance; at the very least, get a written, binding estimate of the cost of your move. Also find out whether extras like cartons and packing tape are included. For more tips, see the box below.

Keep your professional network buzzing. If your spouse transfers often, you need to network like mad, keeping in touch with old bosses and attending conferences. Laurie did this masterfully. She had to quit her job in Yuma, but in May a former boss offered her a marketing director job—and he's letting her telecommute. "Leaving a job I loved was hard," Laurie says, "but everything worked out." $

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WHAT'S THE LOCAL HOUSING MARKET LIKE?
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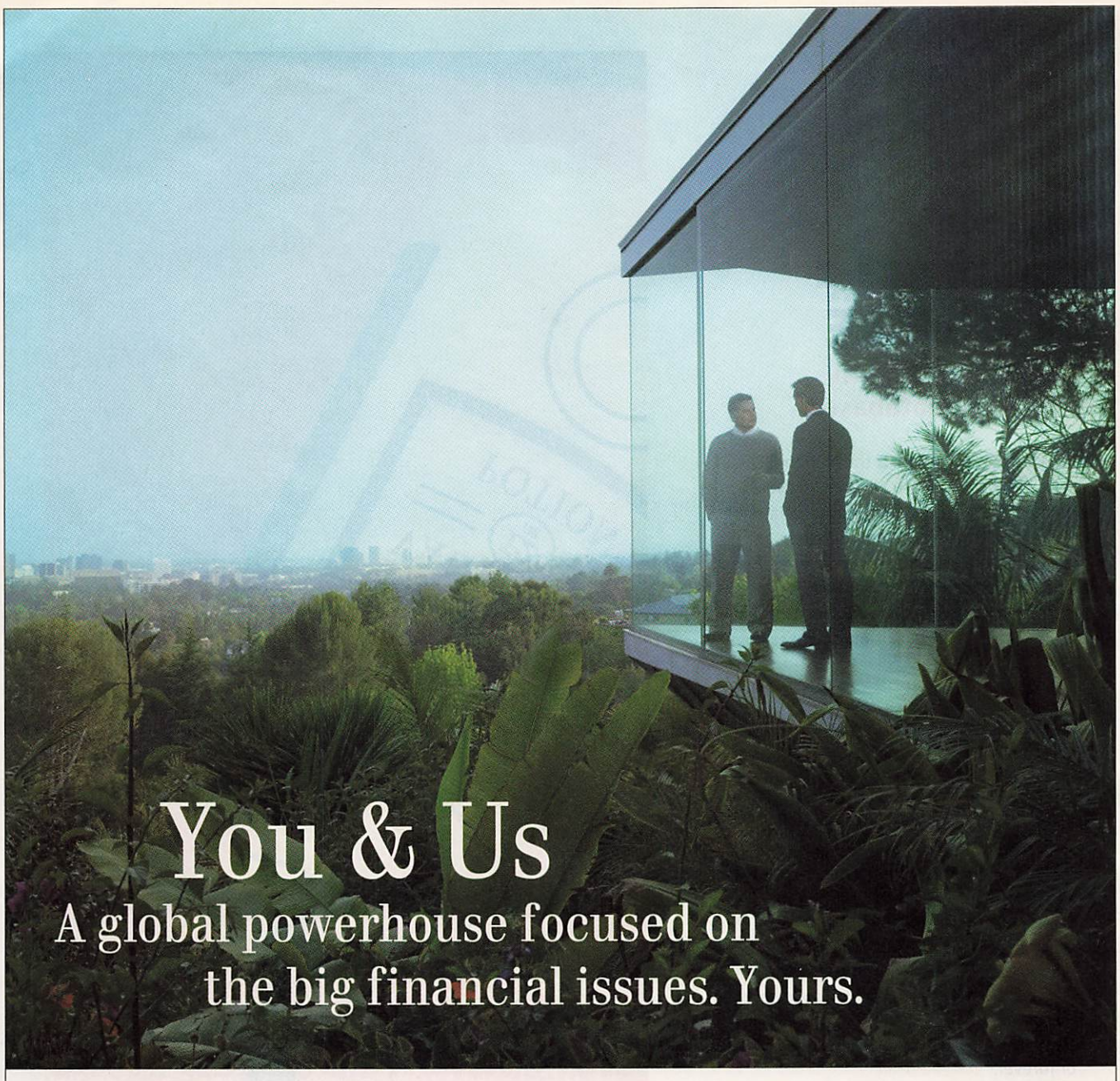
To get recommendations—and warnings—about specific movers from homeowners, go to **movingscam.com**. To see whether a mover is properly licensed and insured, go to **moving.org**, run by the nonprofit American Moving and Storage Association. And to check a mover's record of safety violations and consumer complaints, go to **protectyourmove.gov**.

Question of the Month

Should I Buy Insurance from My Boss?

Q. Is it better to get life insurance through my employer or from an outside insurer?
—Matt Byers, Bethany, Okla.

A. Many employers offer, as a standard employee benefit, a life insurance policy with a death benefit equal to one year's salary. For most families that's too little coverage. But buying a supplemental policy through your employer usually isn't ideal unless you have a health issue that would make it hard to buy insurance on the outside. The problem: Most supplemental policies aren't portable (check with HR to see if yours is), meaning your coverage goes away when you switch jobs. Unless your new employer offers supplemental life too, you'll be back on the private market when you're older and perhaps sicker—and hence, more expensive to insure. So supplement your employer's standard benefit by buying term life on the open market now. Compare policies at accuquote.com or intelliquote.com. —ASA FITCH



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MAKE YOURSELF INVISIBLE

How to vanish from marketers' databases

YOU'VE SIGNED UP FOR the National Do Not Call Registry (donotcall.gov). You've contacted the Direct Marketing Association's anti-junk-mail and anti-spam registries (dmaconsumers.org). So why are money-hungry strangers still interrupting your dinner? Because not every organization must abide by these registries' rules. It's time to get serious.

Junk Mail

- **Get smart about "privacy policies."** By law, companies must ask your permission before selling your name and address to others. So look for seemingly innocuous statements in the mail (often labeled "privacy policy") and send them back with no permission granted.
- **Always write "no mailing lists" on product warranties or rebates you send in.**
- **De-catalogue.** Nearly all product catalogues use a cooperative database called Abacus. E-mail optout@abacus-us.com to stanch the flow.
- **For credit-card offers, visit optoutprescreen.com,** which is run by the credit reporting agencies. You can opt out for five years—or forever.

Spam

- **If your e-mail account is with a small Internet service provider,** consider switching to a larger one, such as Gmail, Hotmail or Yahoo. These companies are pouring big money into reducing spam, says William Yerazunis, chairman of the MIT Spam Conference.
- **Get an aggressive spam-filtering program** such as *SpamAssassin* (download it for free at spamassassin.apache.org).

Telemarketing Calls

- **Don't just grit your teeth.** Pick up the receiver and say calmly that if the organization ever calls again, you will never send another cent its way. You'll be off the list pronto.

—ISMAT SARAH MANGLA

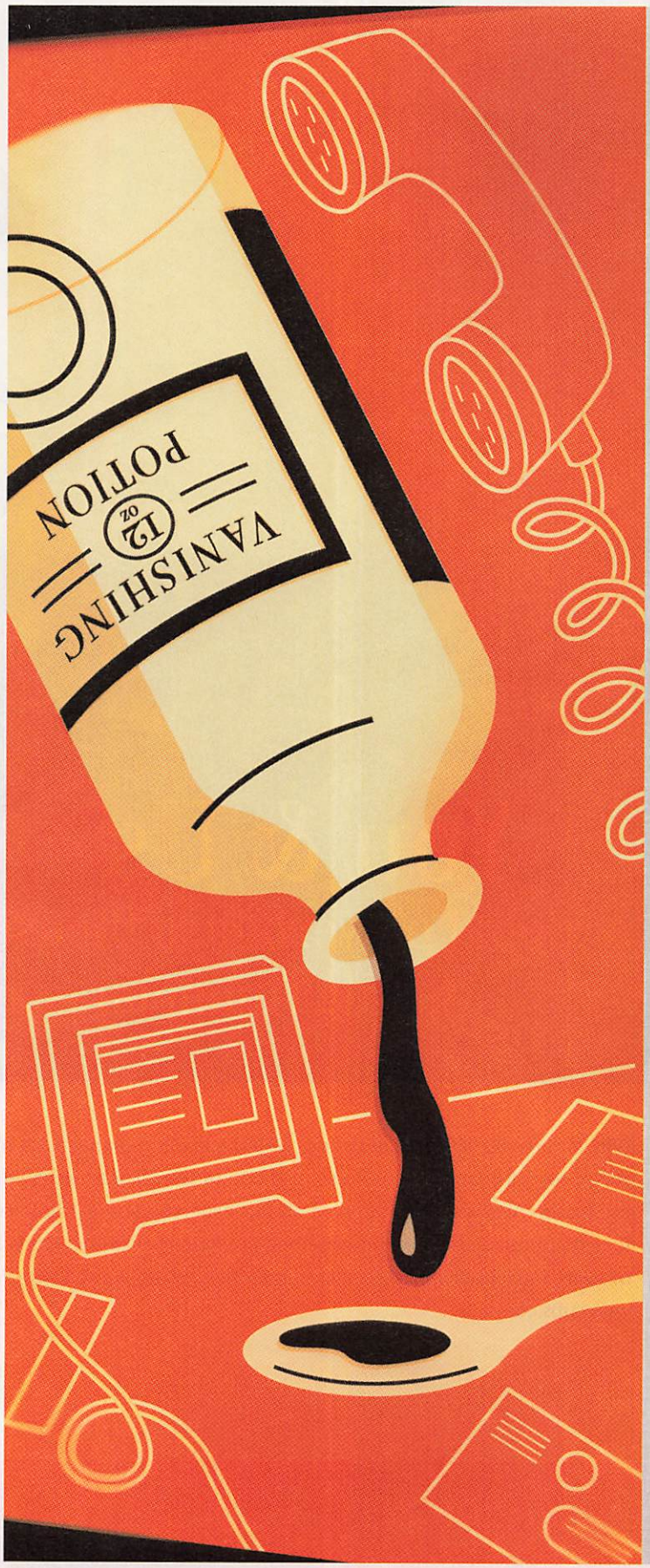
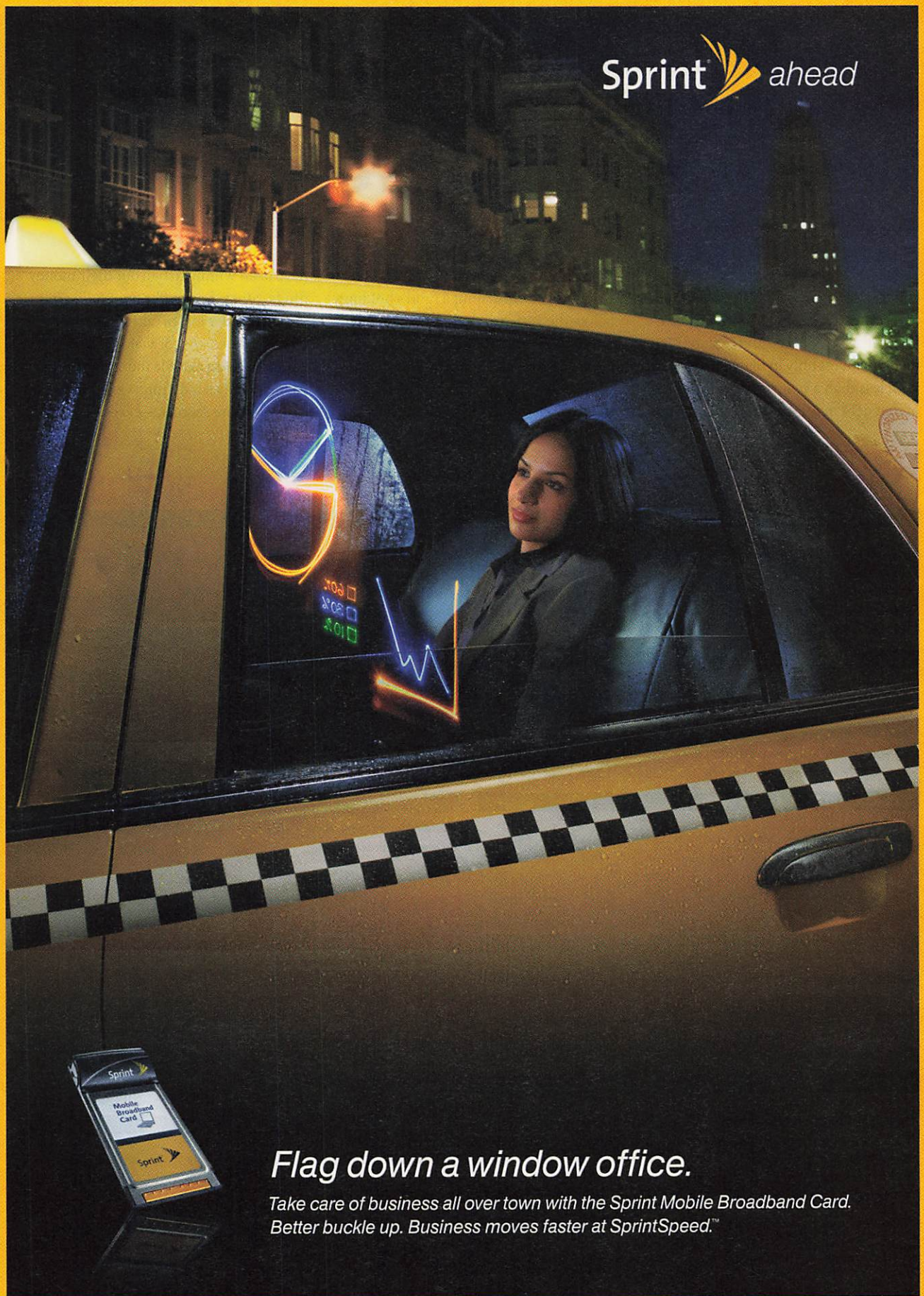


ILLUSTRATION BY HARRY CAMPBELL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THE SUBPRIME MESS | WHAT IT MEANS TO YOU

The Money Fund Scare

Recent news may have you doubting these funds—but they're still a safe bet

News that subprime mortgage trouble could affect money funds has some investors worried. Let's set the record straight. Money funds, though not FDIC-insured, invest only in high-quality debt with less than a year to maturity. Some of that debt may be backed by subprime loans, but strict Securities and Exchange Commission rules limit a fund's holdings below the very top credit tier to just 5%, a percentage that most money funds rarely come close to, according to Peter Crane of Crane Data LLC, which tracks the industry. Moreover, large fund companies have been willing to bail out their money funds rather than suffer the PR disaster of shareholder losses (although there are no guarantees). As for yields, the seven-day average on taxable money funds has dropped only a tad, from 4.8% in late July to 4.7% in late August. —CAROLYN BIGDA

SAVINGS

	YIELD	MIN. INVEST.	TELEPHONE
Bank Money-Market Accounts			
AVERAGE	0.93%		
UFB Direct (California)	5.31	$1	888-580-0049
GMAC Bank (Pennsylvania)	5.30	500	866-246-2265
IGObanking.com (New York)	5.30	1	888-432-5890
Security Savings Bank (Nevada)	5.25	100	888-703-5414
Transportation Alliance Bank (Utah)	5.25	25	800-837-4136
Taxable Money-Market Funds			
AVERAGE	4.65		
Harbor Money Market Fund[1]	5.24	1,000	800-422-1050
Transamerica Premier Cash Reserve Inv.[1]	5.24	1,000	800-892-7587
Vanguard Prime Money Market Fund Inv.	5.23	3,000	800-851-4999
McMorgan Principal Preservation[1]	5.20	5,000	800-831-1994
JennisonDryden MoneyMart Assets B	5.19	1,000	800-225-1852
Tax-Exempt Money-Market Funds			
AVERAGE	3.16		
Alpine Municipal Money Market Fund Inv.[1]	3.66	2,500	888-785-5578
Vanguard Tax-Exempt Money Market Fund	3.66	3,000	800-851-4999
DWS Tax-Exempt Money Fund	3.57	1,000	800-621-1048
Fidelity Municipal Money Market Fund[1]	3.37	5,000	800-343-3548
DWS Tax-Free Money Fund S	3.35	1,000	800-728-3337
Taxable Short-Term Bond Funds			
AVERAGE	4.81		
American Performance S/T Inc. Inv.[1]	5.73	1,000	800-762-7085
USAA Short-Term Bond	5.47	3,000	800-531-8181
Metro. West Low Duration Bond M[1]	5.36	5,000	800-241-4671
Vanguard S/T Investment-Grade Inv.	5.19	3,000	800-851-4999
DWS Short Duration S[1]	5.09	2,500	800-728-3337
Tax-Exempt Short-Term Bond Funds			
AVERAGE	3.58		
Alpine Tax Optimized Income Inv.[1]	3.96	2,500	888-785-5578
Wells Fargo Adv. S/T Muni Bond Inv.[1]	3.83	2,500	800-222-8222
Wells Fargo Adv. Ult. S/T Muni Inc. Inv.[1]	3.72	2,500	800-222-8222
USAA Tax Exempt Short-Term	3.69	3,000	800-531-8181
Vanguard Short-Term Tax-Exempt Inv.	3.65	3,000	800-851-4999

	YIELD	MIN. INVEST.	TELEPHONE
Six-Month CDs			
AVERAGE	3.55%		
Countrywide Bank (California)	5.50	$10,000	800-479-4221
UmbrellaBank.com (Alabama)	5.42	1,000	866-242-0065
Corus Bank (Illinois)	5.40	10,000	800-989-5101
Resource Bank (Virginia)	5.40	10,000	877-726-5463
One-Year CDs			
AVERAGE	3.75		
Countrywide Bank (California)	5.65	10,000	800-479-4221
Corus Bank (Illinois)	5.42	10,000	800-989-5101
Nexity Bank (Alabama)	5.40	1,000	877-738-6391
UmbrellaBank.com (Alabama)	5.40	1,000	866-242-0065
Five-Year CDs			
AVERAGE	4.03		
Allied First Bank (Illinois)	5.50	500	800-272-3286
Intervest National Bank (New York)	5.50	2,500	212-218-8383
Third Federal Savings Bank (Ohio)	5.45	500	888-844-7333
Advanta Bank Corp. (Utah)	5.40	10,000	800-788-2632

CREDIT

	RATE	ANNUAL FEE	TELEPHONE
Cards with the Lowest Rates			
Pulaski Bank & Trust (Arkansas)[1]	7.99%	$35	800-980-2265
First Premier Bank (South Dakota)[1]	9.90	132	800-987-5521
Amalgamated Bank of Chicago (Illinois)[1,2]	11.00	37	800-723-0303
No-Fee Cards with the Lowest Rates			
First Internet Bank of Indiana (Indiana)[1,3]	12.00	0	888-873-3424
Simmons First National Bank (Arkansas)[3]	13.25	0	800-636-5151
5Star Bank (Colorado)[1]	13.90	0	800-776-2265
Premium Cards with the Lowest Rates[4]			
Simmons First National Bank (Arkansas)[1]	7.25	0	800-636-5151
Pulaski Bank & Trust (Arkansas)[1]	7.99	50	800-980-2265
Wells Fargo Bank (California)	8.25	19	800-642-4720
AVERAGE ALL CARDS	13.90		

SAVINGS NOTES AND SOURCES: CD and money-market account data as of Aug. 21 from *100 Highest Yields*, a publication of Bankrate.com ($124 for 52 issues; 800-327-7717, ext. 11410); all have a minimum investment of $10,000 or less. Average tax-exempt and taxable money-market fund yields for the week ended Aug. 21 from *Money Fund Report* (imoneynet.com); all have a minimum investment of $10,000 or less and assets of $25 million or more. Average bond fund yields for the month ended July 31 from Lipper; all are medium- and high-quality funds without sales loads and with average maturities of three years or less. [1]Manager absorbed all or some operating expenses. **CREDIT NOTES AND SOURCES:** All rates subject to change. Credit-card rates are for standard cards as of Aug. 21 from Bankrate.com and are variable unless otherwise indicated. Survey does not include Internet-only cards or AmEx Blue. [1]Fixed rate. [2]MasterCard only. [3]Visa only. [4]Platinum and gold cards.

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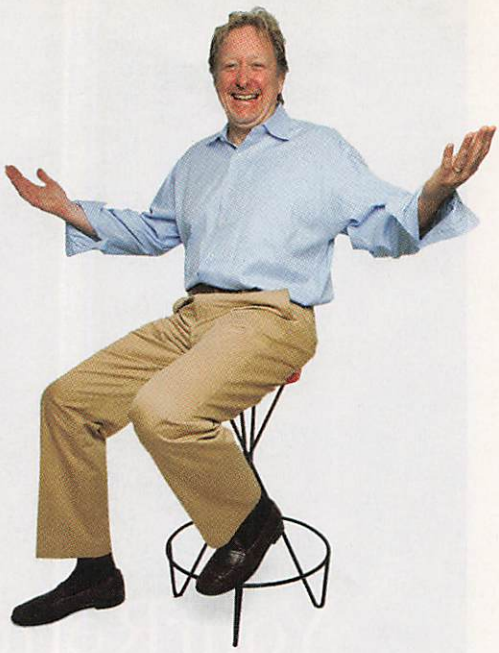
BY DAN KADLEC



You Oughta Be in Facebook

Websites like Facebook and LinkedIn are all the rage for forging professional ties. Don't be left out.

Not a week goes by, it seems, that someone from my past doesn't invite me to join the ranks on the professional networking site LinkedIn. I get pinged by old girlfriends, former classmates and onetime colleagues. I've never felt so wanted. You probably get your fair share of invites too—if not on LinkedIn, then on Facebook or a similar site. If you're like me, you don't have a clue whether this is an opportunity or a headache, or how you should respond.

But it's worth figuring out. Web meeting grounds aren't just for teens to swap photos and gossip anymore. They're a quickly expanding way for grown-ups to maintain and expand their professional networks. For boomers that's critical. At 45-plus you're more likely than ever to strike out on your own (voluntarily or because of downsizing), losing valuable office connections. Online networks can help fill that gap. And if you still work for The Man, these networks can help you stay abreast of other opportunities, find an expert to help you with a specific business issue, and show potential employers that you're up on the latest tech tools.

Boomers are used to tech-driven workplace change. We embraced the virtual office and are adapting to today's always-on BlackBerry culture. Professional networking online is our next hurdle. Think of these groups as a digital cocktail party that never ends—but where no one drinks too much and everyone in the room is hell-bent on getting ahead.

To make the most of an online network, consider these questions:

› **What are the options?** There are a handful of websites devoted solely to business networking, including Ryze and upstart Doostang. But Facebook and LinkedIn have the biggest buzz, albeit for different purposes. Facebook is primarily a social site; formerly mostly an online hangout for college kids, it's now used increasingly by professionals to connect with colleagues, former colleagues and friends. The site is fun and addictive but also cluttered and not easily searched. LinkedIn is strictly for managing business ties; the goal is to provide fast, precise, work-related information.

› **Which one is the best?** The power of these networks is in their size. So follow the buzz. Facebook and LinkedIn are where your friends and contacts are most likely to be. Recruiters actively troll both sites to fill jobs. Work both if you have the time. Otherwise, focus on the one where more people you know are members.

› **How do the sites work?** Once you join a network, you can link to friends, friends of friends, their friends and so on. When you're looking for, say, advice or entrée to a particular company, you can search your network for people who might be able to help, then ask your link (the person who knows you both) to introduce you. You then communicate with your new contact through e-mail or even, gasp, a telephone. If anyone in the network seeks your help, you'll get an e-mail notification from the site and you can choose to respond or not.

› **How do you manage the network?** Keep it focused, advises Kay Luo, spokeswoman for LinkedIn. Link to just the people you would be happy to help and who would be happy to help you. Log in only when you are seeking help or want to update your profile, though you may want to check in more often to see who's up to what. And please, keep your profile professional. After all, if you're going to reach out to folks who can open doors for you, you shouldn't be posting risqué photos or politically incorrect comments where they may see them. That's the digital equivalent of spilling your drink on the hiring manager. **$**

Networking sites are like a digital cocktail party that never ends—only no one drinks too much and everyone is hell-bent on getting ahead.

Dan Kadlec is co-author of The Power Years, *a guide for boomers. E-mail him at* **boom_years@moneymail.com**.

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BY WALTER UPDEGRAVE

A Modest Proposal

How about making the sellers of variable annuities tell people what the investment really costs?

If you'd like to help thousands of people who are saving for retirement (and maybe even yourself), I have a suggestion. Tell the Securities and Exchange Commission (sec.gov) to get off its duff and pass rules improving the disclosure investors get about variable-annuity fees.

The SEC has been mulling this issue for more than two years now. But when I called the agency for a status report recently, I got no hint as to when—or, for that matter, if—new rules might see the light of day. That's a shame. Because judging from the e-mails I get, only a tiny fraction of the investors who have some $1.4 trillion sitting in variable annuities know that they're paying more than they would to invest in regular mutual funds.

› HOW MUCH YOU'RE PAYING A reader e-mailed me a few weeks ago telling me about a wonderful variable annuity he'd bought. It provided great investment choices and an option for guaranteed income, all for just 1.5% of his account's value a year. When I wrote back warning him that he was probably overlooking some fees, he replied that his adviser had assured him "a hundred percent" that he was paying 1.5%, tops. Long story short, after several exchanges, I received a note saying that after getting both his adviser and the annuity department on a conference call, he found that he was actually paying 2.5%. It could have been worse. Variable-annuity expenses can approach or even exceed 3% a year.

› WHERE THE MONEY GOES Annuities have four types of fees. There are "insurance charges" (also known as the mortality and expense fee, or the M&E fee), which insurers claim you pay for various insurance features but which in fact usually go mostly toward sales commissions and marketing costs. Next, you've got the fees for each of the investment options within the annuity. Then there's another set of fees for a panoply of optional riders that may sound good—promising future income or guaranteeing that your heirs will get back at least as much as you invested—but in my opinion are typically too pricey to be worthwhile. And, finally, there are surrender charges, the fee you may owe when you withdraw your money.

True, the prospectus discloses these charges. But that document can run several hundred pages long, and the various fees are laid out in prose that rivals Ambien in its sleep-inducing power. Besides, the prospectus doesn't tell you what you would pay based on the specific investments and other options you've chosen. You practically need to be an actuary to come away with an accurate sense of what you're shelling out.

› AN EASIER WAY I'd like to propose my own simplified disclosure form (at left). It's not perfect. It doesn't get at all the possible nuances of these complicated investments. But it will let you see how much you're spending each year for a variable annuity—and how much more you might have to pay to get out of it.

Copy my form and use it right now. Next time you're at the receiving end of a pitch—or if you already own a variable annuity and aren't sure what you're paying—have the adviser fill out the form. I think you'll be surprised at what this investment is really costing you. And I suspect you'll conclude it's not worth it. **$**

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E-Z ANNUITY FEE DISCLOSURE FORM

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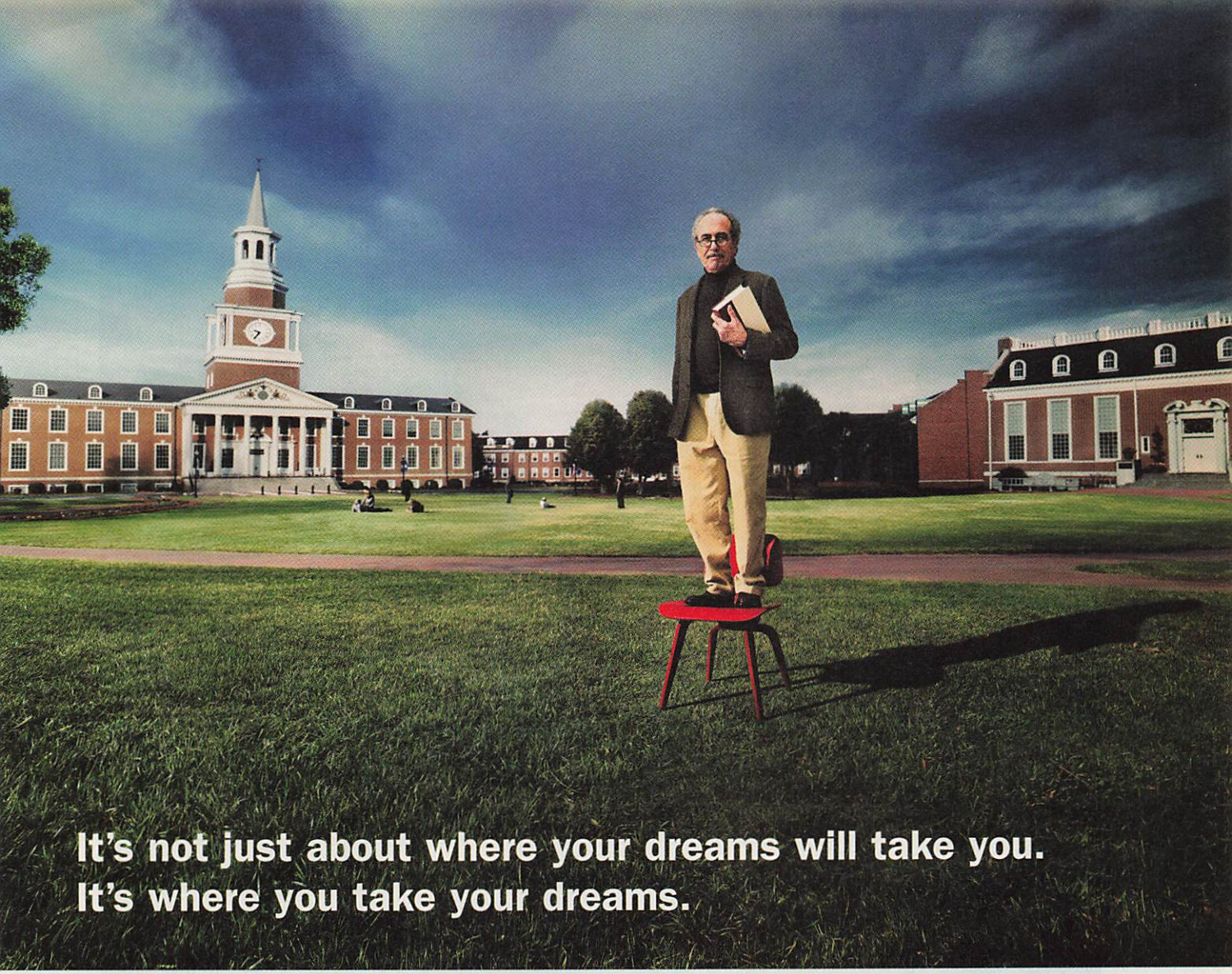
What You Pay Each Year

ANNUAL FEE (AS A PERCENTAGE OF ACCOUNT VALUE) FOR:	NUMBER	TYPICAL
• The insurance (a.k.a. mortality and expenses)	_____%	1.35%
• The investments within the annuity	_____%	0.95%
• Riders and options	_____%	0.65%
TOTAL ANNUAL FEE:	_____%	2.95%

What You Pay to Get Out

• Max. surrender charge (as percentage of withdrawal)[1]	_____%	7%
• Number of years before the surrender charge expires	_____	8

NOTE: [1]May not apply to all withdrawals. **SOURCES:** Morningstar, National Association of Variable Annuities, MONEY research.



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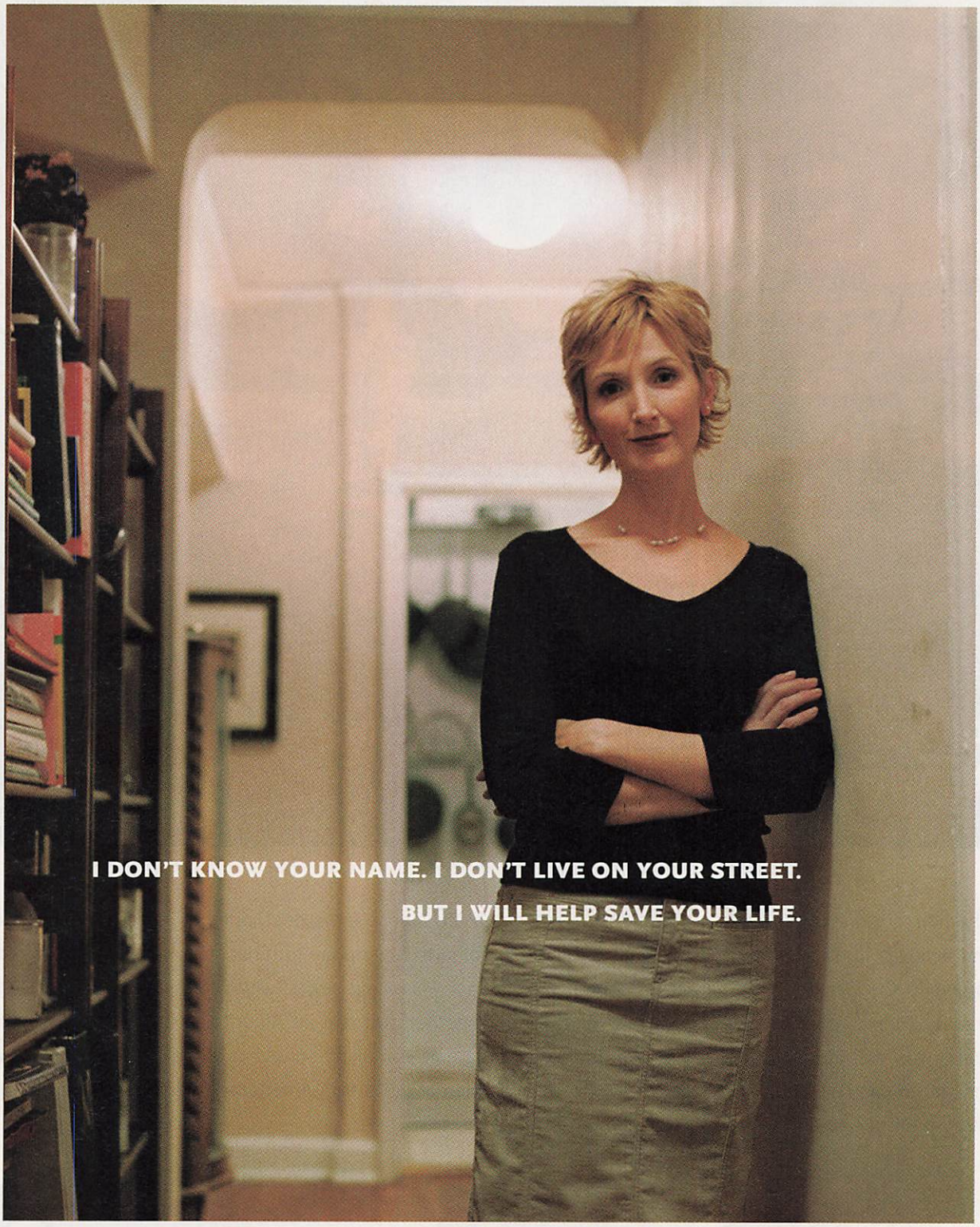

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What to do if your lender fails 52 | Bridge financing 56 | Booklet: Cut your energy bill in half *by Josh Garskof* 56

THE SUBPRIME MESS | WHAT IT MEANS TO YOU

Trapped by the Mortgage Meltdown

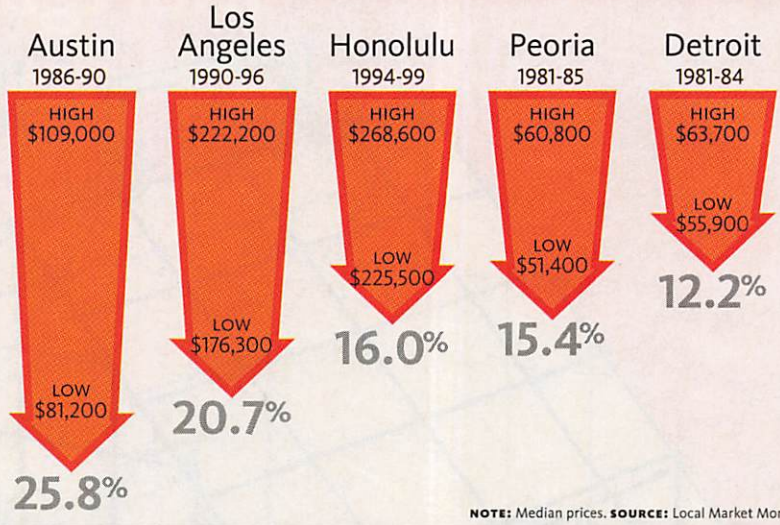
Tighter lending standards have put many home sellers, owners and buyers in a bind. Don't be one of them. BY LES CHRISTIE

ILLUSTRATION BY DANIEL BEJAR

HOW LOW PRICES CAN GO

The median price of an existing home could fall 2% this year, according to economists, and as much as 10% (inflation-adjusted) by 2009. Hard-hit areas like Sacramento and Sarasota may tumble even further—in line with some of the worst declines of the postwar era.

HISTORICAL DROPS



NOTE: Median prices. **SOURCE:** Local Market Monitor.

WHETHER YOU'RE A HOME seller, owner or buyer, by this point you've got to be feeling a little rattled. The bad news about the housing market seems never-ending: Foreclosures have more than doubled over the past year. Sales of existing homes are off 11% from this time last year. At that rate it will take at least nine months to work off the inventory of unsold homes. And median home prices in July (the most recent figure available) dropped for the 12th month in a row.

Worse yet, all that happened *before* problems in subprime lending expanded throughout the mortgage market and beyond, creating what's popularly being referred to as the credit crunch. (For how the meltdown will affect borrowers, see "It's Crunch Time," page 23). While it's too soon to see the impact reflected in the numbers, the immediate future is clear: As lenders tighten their borrowing standards, fewer people will qualify for mortgages. Fewer qualified buyers can only mean that housing prices will slump further. Worst of all, economists don't see much chance for a turnaround until mid-2008 and possibly into 2009.

Ready for some good news? Here you go: First, remember that all real estate is local, and some markets are doing just fine, thank you—in fact, more than half of the major housing markets in the country have yet to see prices drop. Even if yours is in the grim half (or soon will be), there are steps you can take to minimize the damage if you're planning to sell your house anytime soon. Homeowners who plan to stay put for a while may not have anything to worry about. And if you're a buyer—well, this market may be the opportunity of a lifetime.

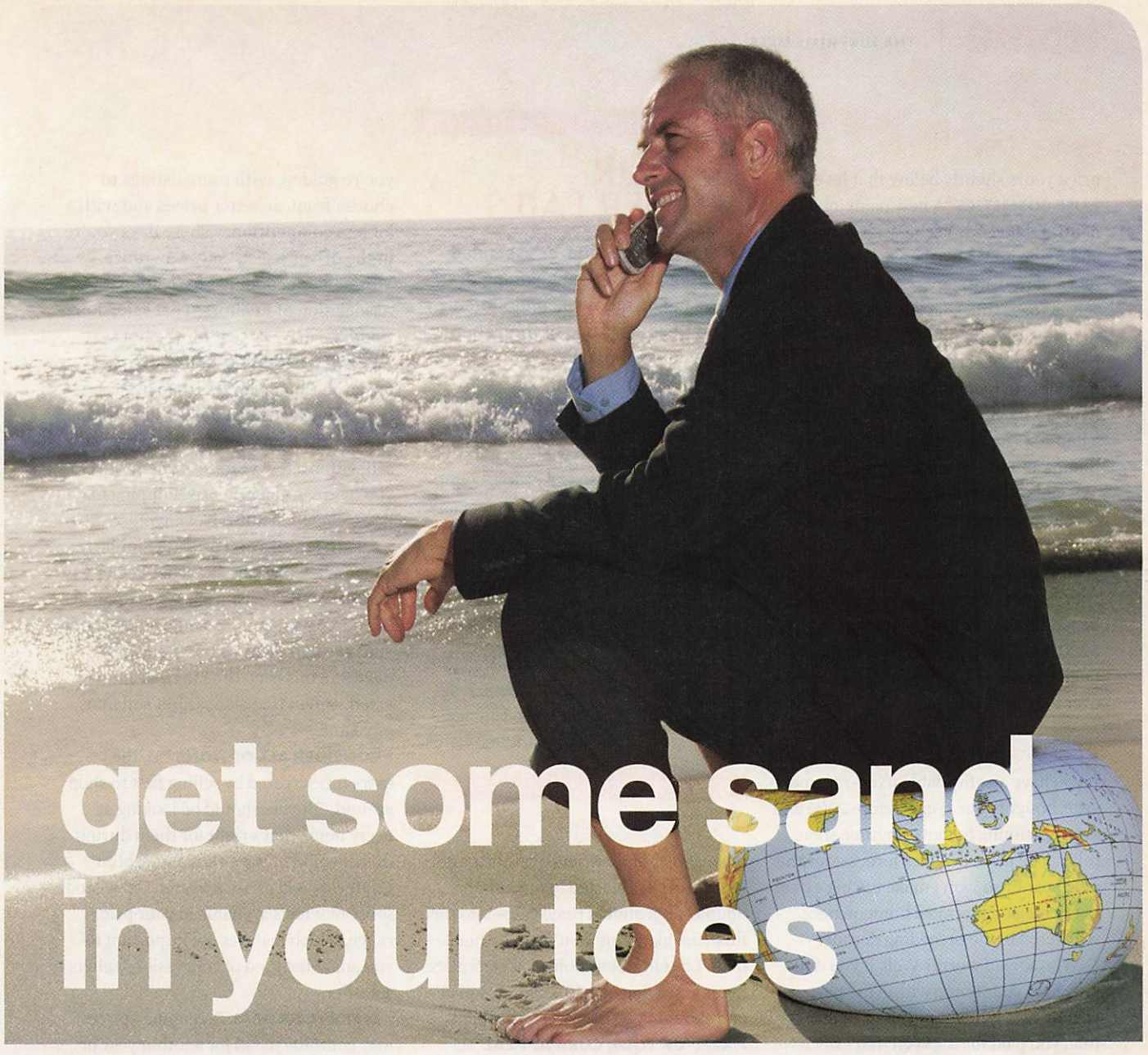
Sellers: Get Realistic Even before the credit crunch hit, softening home prices had turned into outright price drops in many areas, particularly markets that were red hot a couple of years ago. In Las Vegas, for instance, prices have dropped 3.6% over the past year. In Sacramento they've fallen 6.3%. And the damage is in double digits in parts of Florida, like Sarasota (down 11.3%) and Palm Bay (off 15%)—putting those markets on par with some of the worst real estate busts in recent history (see "How Low Prices Can Go" on this page).

With mortgages now harder to obtain, resulting in even fewer buyers to sop up the homes flooding the market, forecasters expect the weakness in sales to continue. Prices of luxury homes, mostly immune to the slump until now, may be hit especially hard. Rates on jumbo mortgages (loans for $417,000 or more) have spiked to 7.46%, and some lenders are charging more than 8%. At those rates, fewer buyers can afford a high-end home, and those who can have to jump through more hoops to get approved for a loan.

But the sellers who face the biggest hurdles are those in a rush to seal a deal. "If you need to sell your home in three months or less, you may have to discount the price 20%," says Jonas Lee, founder of Redbrick Partners, a private equity firm that invests in real estate.

The moral: If you can wait at least a few months to sell, until the panic phase of the crunch passes, do. Otherwise, take these steps to ensure the swiftest possible sale at the best possible price:

› **MAKE IT LOOK LIKE A BARGAIN** Your best shot at a sale is when you first put your home on the market, notes Jim Gillespie, CEO of Coldwell Banker. If the initial listing price is too high, buyers leave and may not come back even if you subsequently cut the price, he says—after all, in this market they've got plenty of other choices. Instead of using the list price of comparable homes for sale in your neighborhood as a guide, check out what homes have actually sold for in the past month or two. Then



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› **USE COSMETICS** "A new paint job in neutral shades, replacing worn carpet and fixing up visible damage to the gutters and roof are steps that pay for themselves," says Gillespie. Also make sure to remove clutter and personal effects before you show the house. "Buyers have to be able to mentally picture themselves living in the home," said Barb Schwarz, a home stager in Concord, Calif. Family photos and souvenirs make that harder.

› **OFFER CARROTS** To clinch a deal, consider buying down the mortgage rate. Your picking up an origination fee (or "point") of 1% at closing could reduce your buyer's interest rate by about 0.25% depending on the type of mortgage. On a $200,000 loan, that will cost you $2,000; but it could save the buyer nearly $12,000 over the term of the loan.

Owners: Sit Tight

If you have an affordable fixed-rate mortgage, bought your home before 2006 and aren't planning to move anytime soon, relax. The price declines forecast for the next year or so won't make too big a dent in the mega-gains most homeowners registered in the preceding decade.

Who *should* worry? Well, if you did purchase your home within the past year or two, it might now be worth less than you paid for it. (Even that's not a problem, though, as long as you plan to continue living there for a while.) And if you've been using your house as an ATM, draining your equity to pay credit cards or buy cool stuff, in the belief that rising home prices would quickly refill the coffers, you're out of luck. Nor can you count on outsize price appreciation to help pay for retirement or your kid's college education. "That strategy has come to an end," says Joseph Mason, a finance professor at Drexel University.

Until the storm passes, take these steps to protect your biggest investment:

› **DOWNSIZE YOUR EXPECTATIONS** Just as stock investors in the late 1990s came to regard 20%-plus annual returns as normal, so homeowners over the past few years have started incorporating double-digit annual price gains into their financial planning. Don't bet the house on it. Literally. Your home isn't a replacement for saving in a 401(k) or 529 plan and shouldn't be used as a piggy bank.

› **KEEP UP YOUR CURB APPEAL** To make sure your home retains its value, keep it in mint condition—lawn neatly mowed, shrubs trimmed, no peeling paint or loose shingles. Now isn't the time to indulge your individuality by painting the exterior mauve or adding a large, unusual addition. You never know when your plans could change and you might have to sell in a hurry.

IF YOUR LENDER FAILS

Dozens of lenders have suspended operations since the beginning of the year, and more will undoubtedly follow. If yours is one of them, here's what you need to do:

- **Relax.** Chances are your loan had already been sold to another firm. Or your lender may have used a mortgage servicer to manage your account. Either way, you probably won't feel any practical impact.
- **Keep up your payments.** Send your check to the same address as usual. If the servicer does change, you'll be notified within 15 days.
- **Know your rights.** Your mortgage contract is legally binding even if it's transferred to another party. The new holder has to abide by its original terms.

Buyers: Hunt for Bargains

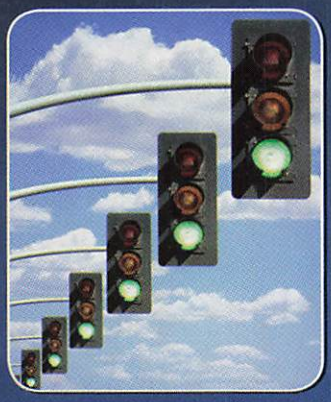
Sure, it's harder to get approved for a mortgage these days. But if you can clear that hurdle (see page 23) and have enough money set aside for a down payment (count on needing at least 10%, and increasingly as much as 20%), you're golden, with more listings to choose from, at better prices and with a lot less competition. "These days you're in the driver's seat," says Lawrence Yun, senior economist for National Association of Realtors. That said, don't trade the driver's seat for the hot seat.

› **THINK LONGER TERM** If you expect to stay in a home for less than five years, don't buy. Rent. You could easily end up getting less than you paid if you have to sell within a few years, especially once you figure in closing costs. Flipping may have worked in 2002. Not anymore.

› **AVOID HAVING TO BRIDGE** Similarly, you don't want to be stuck between two homes. While there are ways to finance the down payment on a new house while you race to unload your old one (see page 56), this is no time to be a "motivated" seller. If at all possible, sell first, buy later.

› **CONSIDER ALL OPTIONS** Use the extra time created by selling first to shop around. "Buyers should be looking at every home that's right for them during this downturn," says Danielle Babb, a California real estate investor. Get a good sense of what's available in your price range, which features are important to you and what kind of concessions sellers are offering.

› **MAKE YOUR DEAL** Remember, prices may continue to fall for another year or two, so once you have a handle on the market, bid low. If the seller won't budge, walk away. There's no shortage of homes for sale. Don't be afraid to press for non-cash concessions as well. Sellers may be willing to pay a portion of your closing costs or provide a home warranty covering repairs for the first year. If you're buying a new home, your builder may give you a cash rebate, plus free upgrades such as granite countertops, a Sub-Zero refrigerator, hardwood flooring or a big-screen TV. Builders are also more willing to pay closing costs or buy down the rate. For them this is a desperately tough market. But that's not your problem. At all. $



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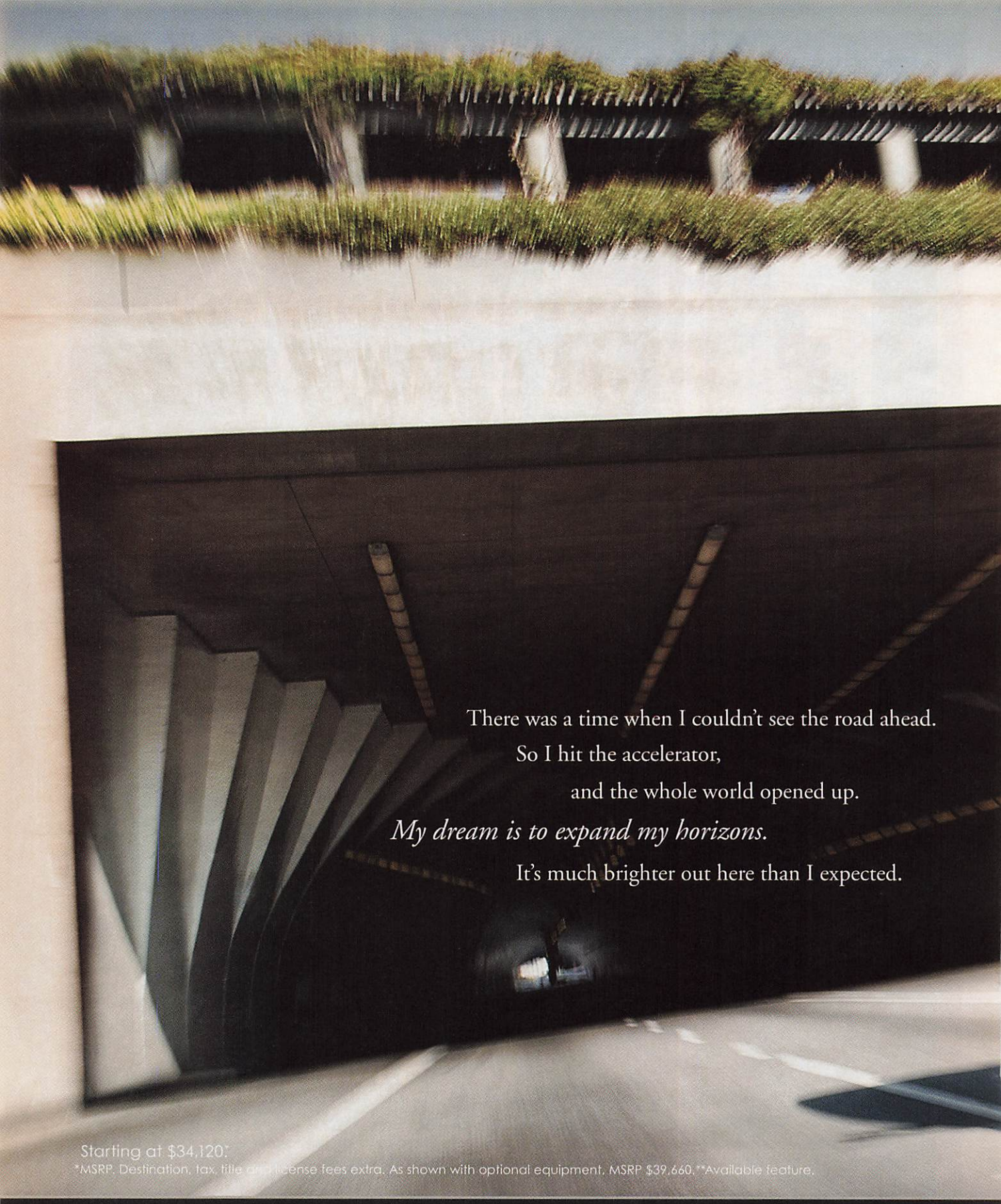
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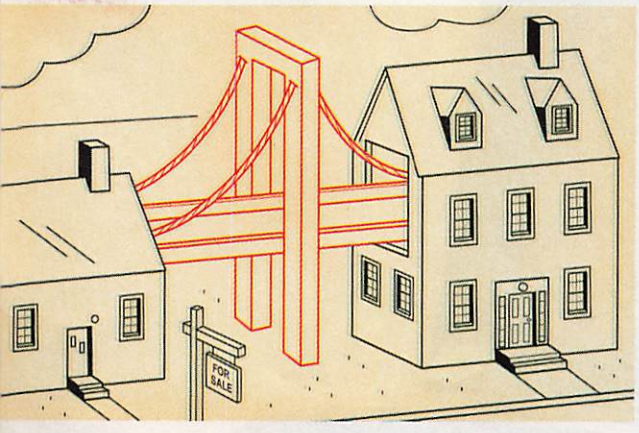
Question of the Month

How Can We Bridge Our Financing Gap?

Q **We've found our dream house**—more space, great location—but haven't yet sold the home we own now. What's the best way for us to finance the purchase?



Answer This is a common dilemma nowadays, given the surfeit of homes on the market. Assuming you don't have an extra $100,000 or so lying around, you have two options to help with the down payment, and possibly the mortgage payments and property taxes for both houses until you sell the old one: a home-equity line of credit or a bridge loan.

Your best bet, if you haven't already put your home up for sale, is the home-equity line of credit, says Tucker Watkins, a financial planner in Irvine, Calif. It's cheaper (recent average rate: 8.75%), with fees generally under $300 (if you pay fees at all). And a credit line is still easy to get these days, even with the credit crunch, as long as you've built up sufficient equity in your house. Just make sure your lender doesn't impose any prepayment penalties or exit fees.

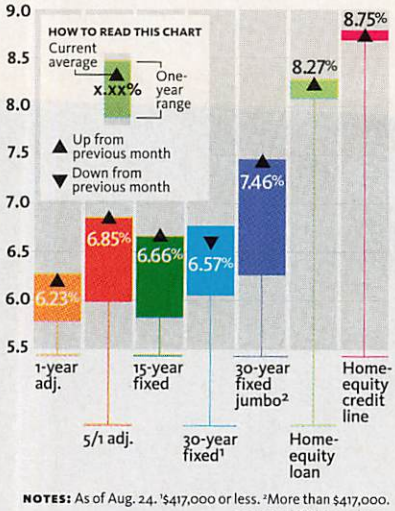
Your alternative is the more expensive bridge loan, typically a one-year interest-only loan specifically designed to cover the financial gap between buying a new home and selling the old one, using the older house as collateral. Rates run one to two percentage points higher than a credit line, and you'll also have to pay up-front points and closing costs equal to about 2% of the amount you're borrowing. Fewer lenders offer this type of loan, so expect to call numerous banks to find one. To qualify you'll have to show that you have enough in the way of income and assets to temporarily cover the mortgage payments on both houses and other costs of ownership.

Not so easy, eh? So here's a radical thought: Unless you have to move—for instance, if you're relocating for a new job—maybe borrowing more isn't the answer. What you should do first is get more aggressive about selling the house you already own—say, sharply lowering the price or hiring a stager to make it look more inviting to buyers. After all, in this market it could take months, even more than a year, to sell your house. Or at least make your offer for the new house contingent on the sale of your old one. If the seller refuses, walk away. Given the flood of houses hitting the market, another dream home will likely turn up—really—maybe even at a better price. —AMANDA GENGLER

Loans Get Costlier for Luxury Buyers

HOME-LOAN RATES

Jumbos skyrocket. The national average rate on mortgages larger than $417,000 has jumped nearly half a percentage point in the past month.



NOTES: As of Aug. 24. ¹$417,000 or less. ²More than $417,000.
SOURCE: HSH Associates.

DEALS: Jumbo 30-Year Fixed-Rate Mortgages

Use these top local rates and terms as benchmarks when you shop for your loan. Visit hsh.com for more deals.

United Bank
West Springfield, Mass.; 413-787-1700
Rate: 6.875%; no points
$330 application fee
20% down payment
Maximum loan: $650,000

Washington Mutual Bank
Tarzana, Calif; 818-774-0307
Rate: 6.875%; 1 point
No application fee
20% down payment
Maximum loan: $650,000

NOTES: As of Aug. 24. Rates and terms subject to change.
SOURCE: HSH Associates.

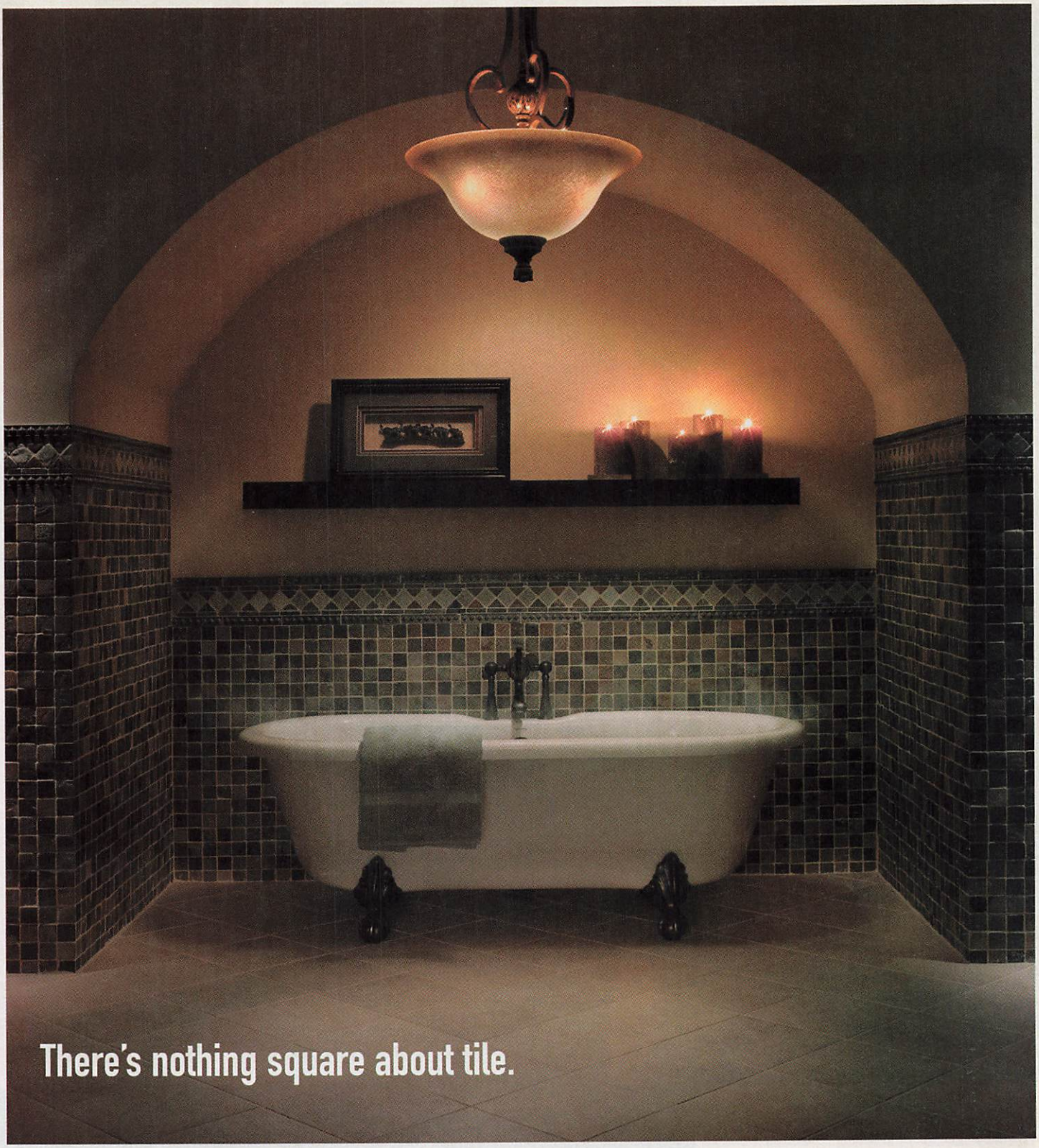
SLUGGISH SALES have led to a glut of homes on the market.

9%
Drop in existing home sales in July from a year ago

31.5%
Increase in housing inventory, creating the largest supply since 1990

SOURCE: National Association of Realtors.

ILLUSTRATION BY HARRY CAMPBELL



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invest

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THE SUBPRIME MESS WHAT IT MEANS TO YOU

Is It Safe Yet?

The meltdown in the subprime mortgage market will create real bargains among bank and brokerage stocks. But you don't need to rush in right away.

BY MICHAEL SIVY

MY FIRST ARTICLE FOR MONEY APPEARED IN 1980, and since then I've learned two things about the stock market. The first is that it's easier to spot when stocks are near a bottom than when they're at a top. Investor enthusiasm seems to have no bounds when stocks are rising, but at some point declining stocks get support from the fundamental value of their underlying businesses.

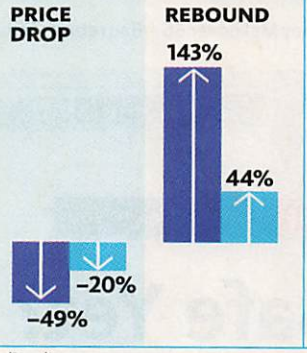
The second thing I've learned is that if you're smart enough to spot bargains after any kind of market crisis, you'll almost certainly buy too soon. With a few exceptions, like the rebound immediately after the 1987 crash, crushed stocks need months to recover. Rush to buy and your money will remain stagnant—or worse, you could get hammered in a final sell-off. »

Getty Images

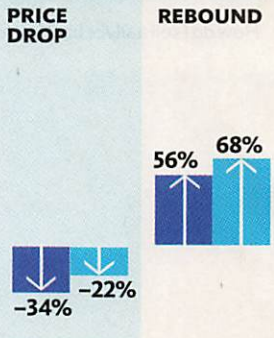
BIG SCARES, BIG GAINS

Past financial crises have created opportunities to buy stocks cheaply, especially financials.

1989-90 S&Ls CRUMBLE
Stocks plummeted as the extent of problems in the savings and loan industry became clear.



1998 MAJOR HEDGE FUND BLOWS UP
The collateral damage in bond markets threatened the global financial system.



NOTE: Rebound is biggest gain in the ensuing two years. SOURCE: Thomson/Baseline.

The recent collapse in financial stocks, caused by the subprime mortgage crisis, will create exactly the kind of bargains that can boost your long-term returns—as long as you're patient and willing to wait for the correction to run its course. In two similar cases, the savings and loan crisis of 1989-90 and the fallout from the 1998 implosion of the Long-Term Capital Management hedge fund, financial stocks rebounded by more than 50% within two years of hitting a bottom.

Once this current correction comes to an end, financial stocks will likely offer some of the best values in the market. They were cheap before, often yielding 3% or more in dividends. Once the stocks finish falling, their price/earnings ratios will be even lower and their yields even higher, of course. And most important of all, they'll be less risky, since the worst of the financial sector's problems will have come to the surface.

GET THE TIMING RIGHT

To fine-tune your investing strategy, it helps to understand why the present crisis has come about. Soaring housing prices and low interest rates encouraged lenders to offer loans to home buyers who might not otherwise have qualified. Wall Street found ways to repackage these riskier home loans in ways that made them appear safe, encouraging even more lending. And homeowners found that they could live beyond their means by using credit cards and then periodically refinancing their houses to pay off the card balances.

The merry-go-round couldn't continue indefinitely. This year a critical number of homeowners defaulted. It has devastated the portfolios of some hedge funds that are loaded up with mortgage-backed debt securities, and it sent some of the country's biggest mortgage lenders reeling. And because those debt securities are so widely distributed, many money managers aren't even sure how vulnerable their holdings are. There's fear that banks and brokerages may have losses far greater than anyone expects. As a result, financial stocks have fallen an average of 12% from their May highs, and some lenders, such as Countrywide Financial, are down by a third or more.

Already, Countrywide has attracted the attention of Warren Buffett and received a $2 billion investment from Bank of America. But they've got strategic reasons to ally with Countrywide. You don't.

In fact, history argues that you should wait to buy financial stocks. In the previous panics of the past two decades, once the major decline in financial stocks began it lasted more than six months, and it was significantly worse than the decline of the overall market.

In the savings and loan crisis, where mortgage lenders had made large numbers of irresponsible loans, financial stocks dropped almost 50% over a period of 12 months. That compares

BEYOND THE BARGAIN BIN

Financial panics create opportunities for growth investors too.

AFTER A MARKET CRISIS, fast-growing stocks can rebound even more strongly in the short run than those in the financial sector do. Following both the savings and loan crisis and the Long-Term Capital Management disaster, financial stocks rallied by at least 50% over two years. But big growth and tech stocks gained more than 75%.

There's good reason for this superior short-term performance. During a financial crisis, the Federal Reserve usually pumps money into the banking system to prevent a severe credit crunch, as it has been doing recently in the wake of the subprime mortgage fiasco. Eventually that action produces lower interest rates and a faster economy, conditions that benefit growth stocks. One caveat: Sometimes this stimulus turns out to be too much of a good thing. The post-LTCM recovery turned into the growth-stock bubble of the late 1990s, which burst in 2000.

For the best aggressive buys, look at large growth stocks with earnings projected to increase at least 12% a year and price-to-earnings ratios below 20. The Sivy 70 list on page 64 includes a variety of such companies. Mutual fund investors can look toward large-cap growth funds such as **Jensen** (JENSX) and **T. Rowe Price Blue Chip Growth** (TRBCX). (For more on those funds, see page 70.)

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with a drop of only 20% for the S&P 500.

The second decline has its roots in the 1997 East Asian financial crisis. Long-Term Capital Management, a hedge fund that used computers to profit from small price discrepancies between U.S. and foreign bonds, collapsed when the debt crisis disrupted bond-price patterns. The stock market turmoil that resulted lasted for seven months. During that time financial stocks dropped 34%; other major market sectors lost 20% to 30%.

BUY THE STRONGEST STOCKS

Once the decline is over—and as the examples above suggest, that could take several more months—you should be able to find great bargains among financials. The best mix of risk and return will be among the higher-quality banks. They'll likely get dragged down along with the weaker stocks in the sector, but they'll have the least chance of developing crippling problems. Stocks worth considering include **Bank of America** (ticker: BAC) and **Wells Fargo** (WFC), both of which are in the Sivy 70 (see page 64).

Brokerages, which may be far more directly involved in troubled mortgage securities, will also likely be driven down to bargain levels. For the best risk-return balance, it makes sense to avoid those with the greatest problems, such as Bear Stearns, and gravitate instead to diversified giants such as **Merrill Lynch** (MER).

And spread your risk among a variety of banks and brokerages. You could do this through a sector fund, such as **Fidelity Select Financial Services** (FIDSX), or through an ETF such as **Financial Select Sector SPDR** (XLF), **Vanguard Financials** (VFH) or one of the **iShares Financials** (IYF and IYG).

Don't worry about catching the absolute bottom in financial stocks. I prefer to miss the first few points in a rebound rather than jump in too early and see my investments sink further. Especially when history suggests patience will prove a virtue. **$**

the answer guy

BY GEORGE MANNES

Q Nearly 40 years ago I bought **a 1,000-ounce silver bar** and carried it out of a Chicago bank vault. **Now I want to sell it,** but I don't know whom to sell it to, where to get a good price or how to transport it securely. Can you help? —Milton Taylor, El Paso

Answer As you've no doubt figured out, handling precious metals can be a hassle. But despite some transaction costs, selling your $12,000 doorstop should be easy.

Start with your stockbroker; some firms accept metals for sale. You can also try established silver dealers such as Dillon Gage in Dallas and FideliTrade in Wilmington, Del. Recently, Dillon Gage offered $11.31 an ounce (40¢ below the spot price) for a big bar.

Once you've found a buyer, shipping can be simple. Take your bar, which should weigh in at 62.5 pounds, to the post office and send it registered and insured. If the package exceeds the mail's 70-pound limit—so-called 1,000-ounce bars vary in weight—ask the buyer about shipment. (UPS won't accept bullion; FedEx won't insure you for big losses.) And next time you want to put a sliver of your money in shiny stuff, try the **PowerShares DB Precious Metals ETF** (ticker symbol: DBP). That way, there's no heavy lifting.

Q How can I find a **mutual fund that holds certain stocks** I am interested in, such as Intel and Sprint Nextel? —Teresa Barnes, Cincinnati

Answer For those particular names, the easy answer is the **Technology Select Sector SPDR** (XLK), an exchange-traded fund holding all the tech stocks in the S&P 500. Of late it had 5.4% of its assets in Intel and 2.4% in Sprint.

Finding the mutual funds and ETFs that are the biggest fans of a given stock is easy at morningstar.com. Start by entering the stock's ticker symbol—say, INTC for Intel—in the box labeled "Quotes." Scroll down to the bottom of the results page; under "More About This Stock," click on "Show me who already owns this stock." Once that page loads, click the tab at the top that reads "Concentrated Fund Owners." Then you'll see the 20 funds with the highest percentage of their assets devoted to Intel.

But here's another thought. Why not simply buy the stocks? Mutual funds can sell their holdings at any time, and you'll be paying management fees every year. Don't put a big chunk of your portfolio into two holdings, but if you use a discount broker and hold the stocks for the long term, your costs will be almost nil.

Looking for some answers? Send us your questions about investing. E-mail **answer_guy@moneymail.com.**

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1. The S&P 500 Index is a market-value weighted index representing the performance of 500 widely held, publicly traded large capitalization stocks. The S&P 1200 Index is a market-value weighted index representing the performance of 29 local markets and seven regional indices. The Indexes are not managed, are not available for investment, and their total return does not include expenses.
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Market's Slide Drags Down Sivy 70

The subprime mortgage mess hits sectors beyond financial stocks

Growth stocks suffered as market turmoil and a slowing economy hurt companies beyond the financial sector. Among the Sivy 70, falling stocks outnumbered gainers by more than three to one. Half a dozen were down at least 10%, while none were up that much. **InterActiveCorp** was the biggest loser. Second-quarter earnings came in below expectations at the online retailing conglomerate, largely because of declines in domestic volume at Ticketmaster. **Alcoa**, which is doing some much needed restructuring, received a blow as Hurricane Dean hit its plant in Jamaica. **Amgen** fell after Medicare issued less favorable reimbursement rules for a couple of the company's important drugs. **Corning**'s second-quarter earnings were undercut by charges for asbestos litigation. **Home Depot** was hurt by the bad housing market. And **Comcast** suffered along with other cable TV-companies after an underwhelming earnings report. **$**

At cnnmoney.com/sivy, you can see the latest Sivy 70 data. E-mail editor-at-large Michael Sivy at **msivy@moneymail.com**.

Sivy 70 BLUE-CHIP GROWTH STOCKS FOR THE LONG RUN

STOCK (TICKER)	PRICE	1-MONTH RETURN	12-MONTH RETURN	P/E RATIO	EARNINGS GROWTH	YIELD
Abbott Laboratories (ABT)	$52.16	-0.7%	9.0%	18.5	12%	2.5%
Aetna (AET)	49.41	-2.6	35.9	14.4	15	0.1
AFLAC (AFL)	53.48	3.4	25.9	16.3	15	1.5
↓ Alcoa (AA)	35.77	-12.9	25.9	11.2	10	1.9
American Express (AXP)	60.03	-1.9	14.4	17.2	13	1.0
↓ Amgen (AMGN)	50.25	-11.0	-25.4	11.9	11	0.0
Anadarko Petroleum (APC)	48.84	-4.7	9.5	12.8	3	0.7
Anheuser-Busch (BUD)	48.00	-1.6	0.7	17.0	9	2.8
Applied Materials (AMAT)	20.70	-2.6	31.5	16.7	16	1.2
Automatic Data Proc. (ADP)	46.81	-0.9	13.2	23.6	15	2.0
Bank of America (BAC)	51.83	9.9	3.0	10.6	7	4.9
Best Buy (BBY)	44.04	-2.9	-4.1	15.8	15	1.2
Boeing (BA)	96.74	-6.5	28.5	19.1	15	1.4
Burlington Northern (BNI)	79.98	-9.4	22.9	15.2	14	1.6
Caterpillar (CAT)	75.17	-7.9	13.7	13.8	13	1.9
Cisco Systems (CSCO)	30.27	1.7	43.8	22.6	15	0.0
Citigroup (C)	48.35	-0.9	3.9	10.7	10	4.5
Coca-Cola (KO)	53.98	1.4	24.7	20.6	8	2.5
Colgate-Palmolive (CL)	66.68	-2.3	14.9	20.0	11	2.2
↓ Comcast (CMCSA)	25.47	-10.0	9.6	33.2	17	0.0
ConocoPhillips (COP)	79.40	-3.1	22.7	8.5	7	2.1
↓ Corning (GLW)	23.39	-10.7	12.5	17.2	17	0.9
CVS (CVS)	36.82	2.5	12.3	19.4	15	0.7
Danaher (DHR)	76.14	-1.0	15.9	20.1	15	0.2
Disney (DIS)	33.16	-4.6	16.9	17.3	14	0.9
DuPont (DD)	48.94	-1.2	27.0	15.5	8	3.0
ExxonMobil (XOM)	83.75	-7.4	22.2	12.1	6	1.7
FedEx (FDX)	110.31	-2.7	11.6	16.6	14	0.4
Fortune Brands (FO)	82.05	0.5	16.1	16.0	10	2.0
Genentech (DNA)	73.32	-2.6	-9.6	24.9	25	0.0
General Dynamics (GD)	77.67	-3.3	16.8	15.7	12	1.5
General Electric (GE)	39.12	-2.7	19.0	17.7	10	2.9
Harley-Davidson (HOG)	55.13	-5.4	-3.3	13.4	11	1.8
Hershey (HSY)	46.60	-1.2	-10.9	20.7	9	2.6
Hewlett-Packard (HPQ)	47.65	0.1	36.0	16.6	12	0.7

STOCK (TICKER)	PRICE	1-MONTH RETURN	12-MONTH RETURN	P/E RATIO	EARNINGS GROWTH	YIELD
↓ Home Depot (HD)	$34.02	-10.4%	3.6%	14.4	12%	2.6%
IBM (IBM)	111.45	-3.7	43.4	16.0	10	1.4
Illinois Tool Works (ITW)	56.50	-0.4	30.1	16.7	12	2.0
Intel (INTC)	24.23	-0.8	34.2	21.7	15	1.9
↓ InterActiveCorp (IACI)	27.19	-14.6	-3.0	17.7	11	0.0
Johnson & Johnson (JNJ)	62.11	1.0	-0.4	15.3	7	2.7
Johnson Controls (JCI)	110.76	-1.9	55.6	17.6	14	1.2
J.P. Morgan Chase (JPM)	45.67	0.7	3.4	9.7	10	3.3
Lilly (LLY)	55.87	-1.5	4.5	16.1	7	3.0
Limited Brands (LTD)	23.69	-9.5	-4.7	15.6	13	2.5
Lowe's (LOW)	29.63	2.5	10.1	14.9	15	1.1
Merrill Lynch (MER)	75.89	-1.1	2.9	8.7	12	1.8
Microsoft (MSFT)	28.30	-7.8	11.8	19.0	12	1.4
Nike (NKE)	54.03	-7.4	42.5	18.5	14	1.4
Northrop Grumman (NOC)	76.48	-0.6	18.5	15.2	10	1.9
Omnicom Group (OMC)	50.37	-5.7	16.5	17.2	12	1.2
PepsiCo (PEP)	67.91	2.5	8.0	20.2	11	2.2
Pfizer (PFE)	24.62	0.1	-5.2	11.6	5	4.7
Procter & Gamble (PG)	65.04	3.3	8.9	21.4	12	2.2
Schlumberger (SLB)	92.42	-2.5	44.7	22.2	20	0.8
Staples (SPLS)	23.33	-4.1	2.4	16.4	15	1.2
Sysco (SYY)	33.51	7.6	12.6	22.0	13	2.3
Target (TGT)	62.01	-4.1	31.1	17.2	15	0.9
Texas Instruments (TXN)	34.15	-6.1	9.2	19.4	15	0.9
3M (MMM)	88.75	-0.5	28.9	17.9	11	2.2
Time Warner (TWX)	19.04	-6.5	16.4	19.3	13	1.3
T. Rowe Price (TROW)	51.46	0.1	19.3	21.8	12	1.3
UnitedHealth Group (UNH)	48.62	-4.7	-2.0	14.0	15	0.1
United Technologies (UTX)	73.30	-1.5	22.5	17.3	11	1.7
Viacom (VIAB)	37.49	-9.4	2.3	16.1	13	0.0
Walgreen (WAG)	44.81	-0.4	-6.8	21.3	15	0.8
Wal-Mart (WMT)	43.17	-9.6	0.5	14.2	13	2.0
Washington Mutual (WM)	36.92	-4.1	-10.4	10.3	11	6.1
Wells Fargo (WFC)	36.45	8.3	7.7	13.3	10	3.4
Wyeth (WYE)	46.61	-6.8	0.1	13.2	6	2.2

NOTES: Data as of Aug. 23. P/E ratios based on projected earnings for the current year. Earnings growth is compound annual rate projected for five years by analysts covering the stock. ↓ Down 10% or more for the month. **SOURCE:** Thomson/Baseline.

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Millionaires in the Making

The Seims are on track—if they can just stop wanting to spend like the neighbors BY YUVAL ROSENBERG

The Seims

WILDWOOD, MO.
Tracy, 41 David, 43

GOALS
- Amass a seven-figure net worth
- Fund college for their two kids
- Retire in their early sixties

ASSETS
- $300,000 in retirement accounts
- $200,000 in home equity
- $175,000 in business equity
- $67,000 in savings accounts

Growing up working class near St. Louis, Tracy and David Seim hoped that education and hard work would turn them into millionaires by age 40. Well, almost. Now 41 and 43, respectively, they have a net worth just shy of $750,000—not a mill, but a very respectable sum. Still, measuring themselves against their more free-spending friends, the Seims don't feel flush. They wonder if they'll be able to afford college for Gabi, 13, and Gracie, 9, a comfortable retirement and, as Tracy puts it, "some fun along the way."

The couple, who run a small company that

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sells industrial fasteners and other supplies, paid themselves $103,000 last year. They have no credit-card debt, have lived in the same house (worth about $300,000) for 14 years and don't drive fancy cars. They're so frugal compared with certain friends, in fact, that they wonder if they're missing something. "Everybody's passing us by," Tracy says. "What are we doing wrong?"

Where They Are Now

The Seims have a total of $300,000 in retirement accounts, and they max out their Simple IRAs, adding $10,500 each last year. They've also been diligently salting away money for their daughters' education—$52,000 so far, stashed mostly in custodial UTMA (Uniform Transfers to Minors Act) accounts, to which they added $1,200 in 2006. They also have about $15,000 in bank CDs.

Like most investors, Tracy and David had some setbacks. At the advice of a financial planner, they invested a rollover 401(k) from David's previous job as a salesman into individual stocks. That was in 2000, right before the market tanked; the account lost more than a third of its value. The Seims have since switched advisers, moved their stash into blue-chip mutual funds and recovered most of their losses. "The only one who made any money was the adviser," David laments.

What They Should Do

The Seims' financial situation isn't nearly as bad as they seem to think, says Jim Reding, a financial planner at Paradigm Wealth Advisors in Des Peres, Mo. College and a comfortable retirement on a seven-figure nest egg are well within their grasp, as long as they take some practical steps now.

› FIX THE INVESTMENT MIX The fact that they no longer hold individual stocks doesn't mean the Seims are diversified. To avoid ups and downs and maximize returns, Reding recommends that they add funds that hold foreign stocks, mid-size growth stocks and a few other asset classes (see the box). What's more, between the 1% annual fee they pay their current financial adviser and the expense ratios on the funds they own (some top 2%), David and Tracy are shelling out way too much. Switching to funds with lower costs would wring more profit from their portfolio.

› MAKE COLLEGE SAVINGS WORK HARDER Reding suggests that the couple open 529 plans and put new savings there. The money will grow tax deferred, and the Seims will get a state income tax deduction. To cover 75% of projected tuition costs, the Seims should ramp up their current rate of saving to $235 a month for Gabi and $289 a month for Gracie.

› DON'T JUDGE PROGRESS BY LOOKING AT OTHER PEOPLE'S STUFF Just because a neighbor owns a vacation house or drives a Jaguar doesn't mean he's smarter with his money: He may be living scarily above his means. The Seims need to stick to their own plan and stop worrying about what everyone else is doing. Assuming they make the changes that Reding suggests—including increasing their retirement saving by 3% a year—he predicts that the couple's net worth will hit the $1 million mark within a decade. **$**

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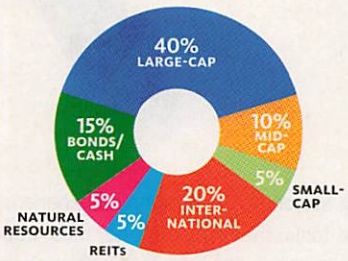
themakeover

	↓ the Problem	↓ the Plan	↓ the Payoff
1	Hefty fees mean that the Seims' investments are not growing as quickly as they could.	› Go with low-cost index funds or exchange-traded funds instead.	› They will get to their net-worth goal of $1 million faster.
2	Their overly concentrated mutual fund portfolio leaves them vulnerable to a drop in large-cap U.S. stocks.	› Diversify, adding stakes in international stocks, REITs, bonds and other investments (see the picks at right).	› A smoother ride through the kind of painful market bumps we've seen recently.
3	They haven't saved enough for their two daughters' college education.	› Open tax-friendly 529 savings plans and stash away more money each month.	› They should be able to cover three-quarters of total education costs—maybe more.

↓ the Portfolio

The Seims are young enough to stay mostly in stocks for now.



STRATEGIC PICKS

- Vanguard Div. App. ETF (VIG)
- Midcap SPDRS ETF (MDY)
- iShares Morningstar Small Core Index ETF (JKJ)
- iShares S&P Global 100 Index (IOO)
- Vanguard Energy Fund (VGENX)

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BY PENELOPE WANG

Why Bad Returns Don't Make a Fund Bad

Good managers can look lousy when the sector they invest in is out of fashion. But fashions change.

Last month I got an e-mail from a reader really giving it to me: "How can you possibly continue to have Jensen on your [MONEY 70 recommended fund] list?" he asked. "I just couldn't keep the dog in my portfolio, so I sold it."

Jensen (ticker symbol: JENSX) has been a laggard, true enough. But too bad about the timing of that sale. More often than not, the best move to make with a lagging fund is to do nothing. A fund may go into a slump simply because its strategy is out of favor on Wall Street. Eventually the market will shift, and your dog will again have its day.

That is exactly what happened with Jensen shortly after this e-mail arrived. Here's the backstory: Jensen focuses on supersize stocks that increase their earnings at a better than average clip—think General Electric or Microsoft. For more than six years, investors have more or less ignored these behemoths in favor of funds that invest in bargain-priced small stocks and real estate. So it's no surprise that Jensen's returns have been lousy and that other large growth funds have mostly delivered blah numbers too.

But since the spring, and even more so with the arrival of the market's summer meltdown, the picture has reversed—last year's chart-topping funds have been hammered, while large growth funds in general, and Jensen in particular, are holding up well. For the three months through Aug. 10, Jensen's 0.2% loss outpaced the S&P 500 by nearly two percentage points. And so far this year the typical large growth fund is ahead by 6.2% vs. a 0.5% loss for small value funds.

Now whether that trend continues in the near term is anyone's guess. But the prices are right. Large growth stocks are selling at an 8% discount to their historical valuations, compared with a 45% premium for small value companies, according to the Leuthold Group, an investment research firm.

The latest economic worries, including the subprime turmoil and rising energy prices, may also work in favor of a large growth rebound—during an economic slowdown, investors tend to bid up stable blue-chip stocks. These trends have encouraged top managers who don't normally focus on big growth stocks to scoop them up. Among them: David Katz of **Matrix Advisors Value** (MAVFX), Charles Mangum of **Fidelity Dividend Growth** (FDGFX) and the team at **Madison Mosaic Investors** (MINVX), all MONEY 70 funds. Says Katz, who has large stakes in Microsoft and Johnson & Johnson: "This absolutely is the most compelling area of the market."

The trick for you is to reposition your portfolio to take advantage of a large growth rebound without going overboard and setting yourself up for a fall if growth stocks' favored-son status disappears again. Take these two steps:

› REVIEW YOUR LARGE GROWTH ALLOCATION If you have a big chunk of your portfolio in an S&P 500 index fund, you're good to go—you own a little of everything. But if you've been chasing performance of late by ignoring big stocks in favor of small ones, or you've held only large-cap value funds, which were also hot over the past few years, move money into large growth. It should make up half of your large-cap allocation.

› LOOK BEYOND THE LABEL Large growth funds don't all invest in the same way. Jensen owns just 25 stocks, so a few picks can send it soaring or sinking. By contrast, **T. Rowe Price Blue Chip Growth** (TRBCX) holds more than 100 stocks,

ONE DAY YOU'RE COLD, THE NEXT YOU'RE HOT

Large growth funds trailed hot sectors like real estate in 2006. But as the economy has slowed and the credit markets tighten, investors are favoring giant stocks for their stability.

	2006	2007	
FUND TYPE	FULL YEAR	MOST RECENT THREE MONTHS	YTD
LARGE GROWTH	7.3%	0.2%	6.2%
LARGE VALUE	18.3	-4.0	2.2
SMALL VALUE	16.3	-5.9	-0.5
REAL ESTATE	34.0	-12.4	-9.5

NOTE: 2007 data as of Aug. 10. SOURCE: Morningstar.

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which gives you a smoother ride, though a bit less potential for an outsize gain. The T. Rowe fund places in the top half of its peer group year after year. Jensen, on the other hand, tends to be at the very top or near the bottom.

For my letter writer: The fact is, if you're well diversified, your assets won't move in sync, which means some of your funds will underperform the market at any given time. Yes, you should sell a laggard that's been stumbling for an extended period when its competitors are doing well. But if the fund's peers are lagging the market too, then most likely the sector your fund invests in is just out of fashion. That will change someday. And the last thing you want to do is bail out the day before someday arrives. **$**

FEEDBACK: *pwang@moneymail.com*

Money 70 OUR LIST OF RECOMMENDED MUTUAL FUNDS AND ETFs

During a tough stretch for stocks worldwide, only bond funds gained ground in the four weeks ended Aug. 16. The two best performers were **Vanguard Inflation-Protected Securities** and **iShares Lehman TIPS Bond**, up 2.1% and 2%, respectively. In a change to the MONEY 70 this month, **T. Rowe Price International Bond** fund replaces American Century International Bond, which will start charging new investors a sales load in late September.

FUND (TICKER)	TOTAL RETURN 1 MO.	1 YR.	3 YRS.[1]	EXPENSES (AS % OF ASSETS)[2]	PHONE NUMBER (800)
Large-Cap					
American Funds Amcap (AMCPX)[3]	–6.7%	12.3%	10.5%	0.64	421-0180
Am. Funds Am. Mutual (AMRMX)[3]	–7.6	12.3	11.0	0.55	421-0180
Fidelity Dividend Growth (FDGFX)	–7.3	11.4	9.5	0.59	343-3548
Fidelity Spartan 500 Index (FSMKX)	–9.0	10.7	10.9	0.10	343-3548
Fidelity Spartan Total Market (FSTMX)	–9.3	11.0	12.1	0.10	343-3548
iShares S&P 500 Index (IVV)	–8.9	10.7	10.9	0.09	474-2737
Jensen (JENSX)	–5.6	10.7	6.8	0.85	992-4144
Madison Mosaic Investors (MINVX)	–6.5	7.0	6.8	0.95	368-3195
Matrix Advisors Value (MAVFX)	–9.3	18.3	10.2	0.99	366-6223
Selected American (SLASX)	–9.5	9.2	11.8	0.90	243-1575
Sound Shore (SSHFX)	–9.3	11.5	12.6	0.92	551-1980
T. Rowe Price B/C Growth (TRBCX)	–9.2	12.7	10.6	0.82	638-5660
T. Rowe Price Equity Income (PRFDX)	–9.1	11.3	12.0	0.69	638-5660
Vanguard 500 Index (VFINX)	–9.0	10.7	10.9	0.18	851-4999
Vanguard Total Stock Market (VTSMX)	–9.4	10.9	12.0	0.18	851-4999
Vanguard Total Stock Mkt. ETF (VTI)	–9.3	11.0	12.1	0.07	851-4999
Vanguard Windsor II (VWNFX)	–9.6	11.4	13.3	0.34	851-4999
Midcap					
Aston Mid Cap (CHTTX)	–11.1	21.8	14.5	1.16	992-8151
FAM Value (FAMVX)	–6.7	9.1	8.8	1.18	932-3271
Fidelity Value (FDVLX)	–11.4	12.2	16.4	0.67	343-3548
FPA Perennial (FPPFX)[4]	–7.1	11.4	12.2	0.92	982-4372
Janus Mid Cap Value (JMCVX)	–9.6	12.7	14.3	0.93	525-3713
Meridian Growth (MERDX)	–9.0	9.7	11.1	0.85	446-6662
Primecap Odyssey Agg. Gro. (POAGX)	–7.2	15.4	N.A.	0.99	729-2307
Vanguard Mid-Cap ETF (VO)	–12.2	10.7	16.6	0.12	851-4999
Vanguard Mid-Cap Index (VIMSX)	–12.3	10.6	16.6	0.22	851-4999
Multicap					
Bridgeway Agg. Inv. 2 (BRAIX)	–14.8	13.5	19.8	1.13	661-3550
Muhlenkamp (MUHLX)	–14.7	–0.1	8.0	1.04	860-3863
Weitz Hickory (WEHIX)	–13.4	4.6	8.3	1.20	304-9745
Small-Cap					
Neuberger Berman Fasciano (NBFSX)	–8.6	9.9	7.6	1.20	877-9700
Royce Opportunity (RYPNX)	–13.4	12.4	15.4	1.11	221-4268
Royce Pennsylvania Mutual (PENNX)	–10.2	11.4	15.7	0.87	221-4268
T. Rowe Price New Horizons (PRNHX)	–8.4	12.1	15.2	0.83	638-5660
Vanguard Small-Cap ETF (VB)	–10.7	10.5	14.7	0.09	851-4999
Vanguard Small-Cap Index (NAESX)	–10.7	10.4	14.5	0.23	851-4999
Specialty					
Cohen & Steers Realty (CSRSX)	–9.9	–0.3	19.4	0.96	330-7348
Specialty continued					
iPath Dow Jones-AIG Comm. (DJP)	–3.7%	3.3%	N.A.	0.75	764-7284[8]
iShares Dow Jones Select Div. (DVY)	–7.5	6.2	10.2%	0.40	474-2737
iShares S&P GSSI Nat. Res. Index (IGE)	–14.3	13.5	26.3	0.50	474-2737
Third Ave. Real Estate Value (TAREX)	–11.3	4.4	16.3	1.11	443-1021
T. Rowe Price New Era (PRNEX)	–14.4	18.2	26.7	0.67	638-5660
Vanguard REIT ETF (VNQ)	–8.9	–0.2	N.A.	0.11	851-4999
Vanguard REIT Index (VGSIX)	–8.9	–0.3	16.8	0.21	851-4999
Foreign					
Am. Funds EuroPacific Gro. (AEPGX)[3]	–12.1	12.1	21.1	0.75	421-0180
Artisan International (ARTIX)	–12.4	10.0	20.1	1.20	344-1770
Dodge & Cox Intl. Stock (DODFX)	–11.8	13.5	23.2	0.66	621-3979
Fidelity Spartan Intl. (FSIIX)	–11.6	11.7	19.9	0.09[7]	343-3548
iShares MSCI EAFE Index (EFA)	–12.2	10.6	19.4	0.35	474-2737
Oakmark International (OAKIX)	–10.2	10.3	20.3	1.09	625-6275
SSgA Emerging Markets (SSEMX)	–17.0	25.2	35.6	1.25	997-7327
T. Rowe Price Emer. Markets (PRMSX)	–16.1	27.0	35.8	1.25	638-5660
T. Rowe Price Intl. Discovery (PRIDX)	–13.2	19.6	26.7	1.24	638-5660
Vanguard Emer. Mkts. ETF (VWO)	–16.2	24.5	N.A.	0.29	851-4999
Vanguard Emer. Mkts. Stock (VEIEX)	–16.2	24.4	32.8	0.41	851-4999
Vanguard Intl. Growth (VWIGX)	–13.0	11.1	20.2	0.54	851-4999
Vanguard Total Intl. Stock (VGTSX)	–12.5	13.3	21.4	0.32	851-4999
Bond					
American Funds Amer. H/I (AHITX)[5]	–4.3	5.3	7.2	0.65	421-0180
Dodge & Cox Income (DODIX)	0.6	5.1	3.7	0.44	621-3979
FPA New Income (FPNIX)[6]	0.9	5.2	3.5	0.62	982-4372
Harbor Bond (HABDX)	1.9	4.7	3.6	0.58	422-1050
iShares Lehman 1-3 Yr. Treas. (SHY)	1.6	5.8	3.1	0.15	474-2737
iShares Lehman TIPS Bond (TIP)	2.0	3.6	3.3	0.20	474-2737
iShares Lehman U.S. Agg. Bd. (AGG)	1.2	5.0	3.4	0.20	474-2737
T. Rowe Price Intl. Bond (RPIBX)	0.3	4.8	4.0	0.84	638-5660
Vanguard Infl.-Pro. Sec. (VIPSX)	2.1	3.6	3.4	0.20	851-4999
Vanguard Intm.-Term T/E (VWITX)	–0.7	2.0	2.6	0.16	851-4999
Vanguard Short-Term Bond (VBISX)	1.5	5.8	3.1	0.18	851-4999
Vanguard Total Bond Mkt. (VBMFX)	1.4	5.4	3.6	0.20	851-4999
Target-Retirement					
T. Rowe Price Retirement (STOCK/BOND ALLOCATION)					
2005 Fund (55%/45%) (TRRFX)	–4.9	9.0	9.6	0.61	638-5660
2020 Fund (80%/20%) (TRRBX)	–8.1	10.6	12.1	0.72	
Vanguard Target Retirement					851-4999
2025 Fund (81%/19%) (VTTVX)	–7.7	10.4	9.8	0.21	
2035 Fund (90%/10%) (VTTHX)	–8.8	10.9	11.5	0.21	

NOTES: As of Aug. 16. N.A.: Not available. Load funds are included for those who prefer to use a broker. [1]Annualized. [2]Audited and annualized figures except on Fidelity. [3]5.75% sales load. [4]5.25% sales load. [5]3.75% sales load. [6]3.50% sales load. [7]Includes a waiver. [8]Area code is 877. **SOURCES:** Lipper, New York, 877-955-4773; the fund companies.

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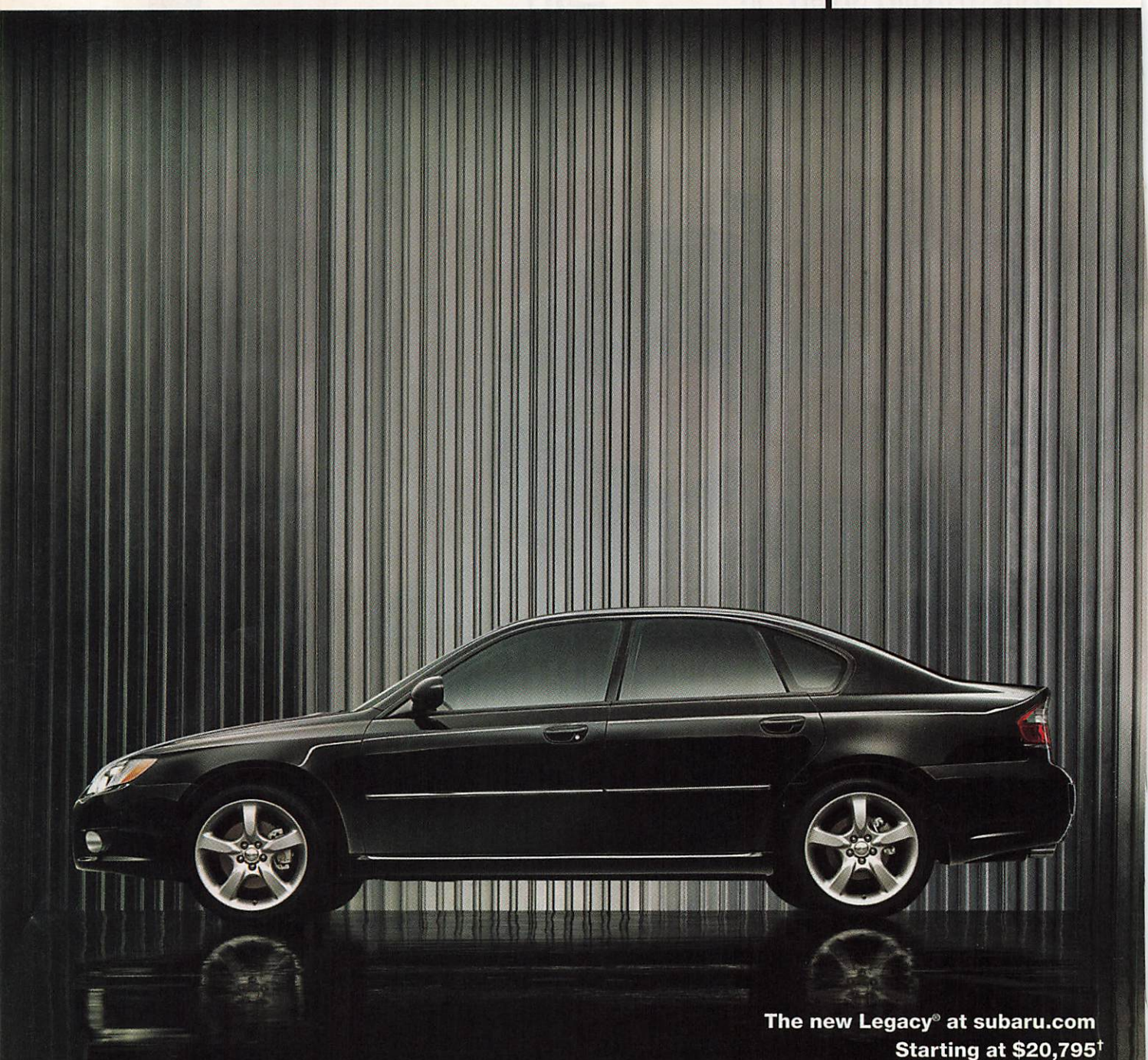

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M35

Anniversary Issue

35 MINUTES TO RICHES

In honor of our anniversary, 35 is the theme of this story. We offer 47 smart ways to get on track to a rich life in 35 minutes or less (often far less in our timed tests).

+ Six plans to reach your long-term goals in 35 hours, 35 days, 35 weeks, 35 months or 35 years.

BY ASA FITCH, AMANDA GENGLER, JOSH HYATT AND ISMAT SARAH MANGLA

35-MINUTE MOVES

See where you stand

= EST. TIME | $ = PAYOFF

RUN A RETIREMENT PLAN On the road to riches, the key question is whether you're on track for financial independence. So pull out your retirement and investment account statements, plus projections for any pensions, and use the Retirement Planner at cnnmoney.com/tools to chart your position. Running that simple math can be surprisingly valuable: Researchers have found that people who plan for retirement have a higher net worth than those who do nothing.

5 MINUTES | $ YOU'LL HAVE A PLAN FOR REACHING YOUR SINGLE BIGGEST FINANCIAL GOAL.

TRACK YOUR RETURNS It's a pain to figure out how your investments are doing, especially if your money is scattered among several accounts. Spend 35 minutes setting up the portfolio tracker at portfolio.morningstar.com (you must first register at the site) so that you can start calculating your own rate of return. For a Web tool that can be clunky, Morningstar's tracker is particularly well designed and easy to use. You will, however, have to update it when you reinvest dividends or buy more shares.

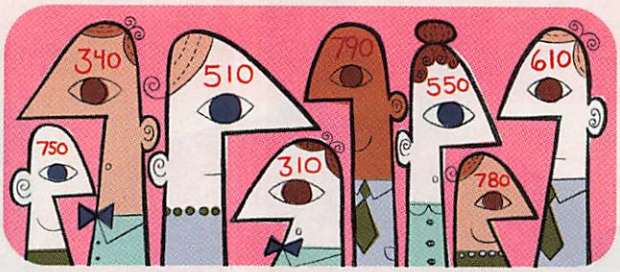
35 MINUTES | $ YOU'LL KNOW—FOR REAL, FINALLY—HOW YOUR WHOLE PORTFOLIO IS DOING.

FIND OUT WHETHER YOU'RE PAID ENOUGH Before you can make your case for a raise, you need something to measure yourself against. Salary.com offers Salary Wizard for free. Plug in your title and zip code and you'll get the median pay in your area for comparable positions. Or spend 10 minutes filling out a questionnaire with more variables, such as the size of your employer, and get 12 pages of data by buying a Personal Salary Report for $29.95 to $79.95 (the price varies by title).

15 MINUTES | $ AN IDEA OF WHAT TO ASK FOR (OR AIM FOR)

ESTIMATE YOUR LIFE INSURANCE NEEDS How much coverage is enough? For a fast ballpark estimate, multiply your annual income by five. With 35 minutes you can use the detailed calculator from the Life and Health Insurance Foundation for Education (life-line.org). You'll be asked for your assets and debts, plus answers to tough questions like how long your family would need income after your death. If you find you need more coverage, get a quote on a term policy in five minutes at accuquote.com.

35 MINUTES | $ KNOWLEDGE THAT YOUR FAMILY IS PROTECTED



••• **FIND OUT YOUR CREDIT SCORE** Know how lenders see you. Take seven minutes to download a free credit report at annualcreditreport.com. (For year-round monitoring, get a report from one of the three major credit bureaus every four months.) If you spot an error, notify the bureau (online, by phone or by mail) and the creditor (call and also send a letter). You won't find your credit score here, so when you request a report from Equifax, pay $7.95 for your FICO score, the most commonly used score. The range is 300 to 850—700 and above is good.

7 MINUTES | $ YOU TAKE BACK CONTROL OF YOUR REPUTATION.

WHY IT PAYS TO RAISE YOUR SCORE

Mortgage rate you'll qualify for if your credit score is...

560	10.2%
660	6.7%
760	6.2%

NOTE: As of Aug. 22.
SOURCE: myfico.com.

35 HOUR PLAN

Protect the Value of Your Home

Devote four Saturdays a year to home maintenance and you can prevent costly repairs later. The biggest threat: water damage, which can lead to rotting and mold, says Dave MacLellan, co-author of *The National Home Maintenance Manual* and founder of Housefixit.com.

FALL

DAY ONE

Clean the gutters—clogs can cause water to back up into the eaves, and the acid produced by leaves and bird droppings eats away at metal. For better energy efficiency, change the air filter in your furnace. (For more such tips, see the booklet following page 56.)

DAY TWO

Water can seep in around windows and doors, so open each one to check whether dirt has clogged the weep holes, the small drains in the tracks. Unclog them with a straightened paper clip. Next circle your home's exterior looking for gaps around windows and doors. Fill them with caulking. Also watch for protruding nails. As the temperature changes, the holes expand and contract, pushing out the nails. Replace them with galvanized nails.

SPRING

DAY ONE

Inspect your roof from a ladder (walking on it can cause damage). Look for shingles or tiles that have loosened, slipped or blown off. You'll likely want to hire someone to install new shingles (the smallest project will start at $250); ignore the problem and one day you may have to spend $11,000 to $30,000 on a new roof.

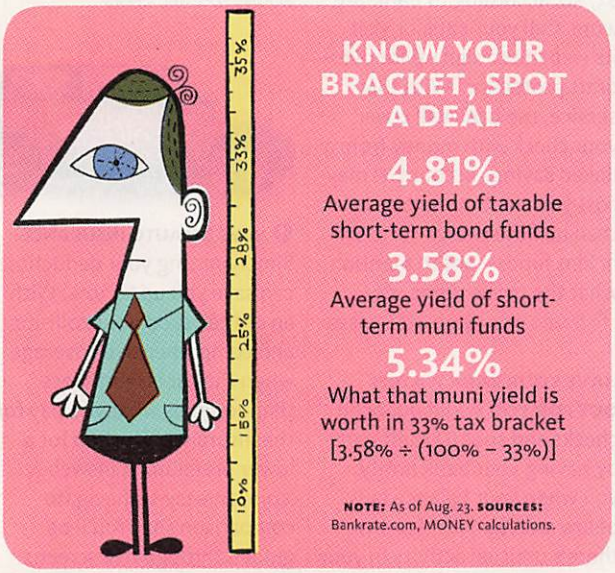
DAY TWO

Repeat the fall inspection of your walls. Change your furnace's air filter again.

ILLUSTRATIONS BY MELINDA BECK

LEARN YOUR TAX BRACKET Knowing what rate you pay on the last dollar you earn can help you to, among other things, pick a taxable vs. a municipal bond fund. Pull out your most recent 1040 and look for taxable income (line 43 in 2006). Adjust for any big changes in your income or the deductions you expect to take this year, then find where you fit in at irs.gov (search for "2007 federal tax rate schedule"). To choose between a muni and a taxable fund, divide the muni's yield by 100% minus your tax rate. If that number is higher than the taxable yield, go tax-free.

20 MINUTES | $ BETTER AFTER-TAX EARNINGS ON YOUR CASH



KNOW YOUR BRACKET, SPOT A DEAL

4.81%
Average yield of taxable short-term bond funds

3.58%
Average yield of short-term muni funds

5.34%
What that muni yield is worth in 33% tax bracket [3.58% ÷ (100% − 33%)]

NOTE: As of Aug. 23. **SOURCES:** Bankrate.com, MONEY calculations.

35 SECOND CALLS

Fail-Safe Fast Calls

SAY NO TO A NEW STORE CREDIT CARD With rates typically above 20%, interest can wipe out that initial 10% discount. The new credit application will hurt your credit score, and you'll have yet another temptation to spend.

CHECK YES TO REINVESTING YOUR DIVIDENDS If you'd put $10,000 in an S&P 500 index fund in 1997 and reinvested dividends all along, you'd have $22,446 at the end of 2006. If you didn't, you'd end with just $19,147.

SAY NO TO AN EXTENDED WARRANTY It'll cost you $30 to $200, and with electronics so reliable nowadays, you're unlikely to need it. Besides, if your computer breaks in two years, you'll want the new model, not a replacement.

FILL YOUR TANK WITH REGULAR Premium gas is about 8% more expensive, and no matter what the manufacturer says, cars don't need pricier gas to run smoothly and resist wear.

SWIPE YOUR DEBIT RATHER THAN CREDIT CARD If your purchase will further fatten your balance on a high-rate credit card, you're better off paying with the money that's in your bank account. If asked, say "credit" rather than "debit" and your debit card will be processed over the credit-card network. You'll have more liability protection and less chance of paying a fee.

DELETE ANY E-MAIL ASKING FOR ACCOUNT INFORMATION OR YOUR SOCIAL SECURITY NUMBER It may be a scam. No reputable financial services firm will ask.

35-MINUTE MOVES

Manage money smarter

RAISE YOUR CREDIT SCORE It takes time to recover from major credit lapses (see the box on page 81), but you can do two things fast that will improve your credit score. Both will lower the size of your outstanding debt as a percentage of your total borrowing power. 1. Pay down a balance. 2. Call your issuer and ask for a higher credit limit. And don't spend it.

8 MINUTES TO CALL | $ YOU'LL QUALIFY FOR BETTER LOAN RATES.

STOP JUNK MAIL Call 888-5OPTOUT to remove your name from credit issuers' mailing lists. The result of that five-minute talk with a computer? Fewer temptations and a mailbox filled with letters, not offers for pre-approved cards. Most important, you'll cut the risk of an identity thief raiding your mailbox or garbage can and applying for credit in your name. Stolen paper mail accounts for 9% of identity fraud cases, according to Javelin Strategy & Research. Note: Because we're talking credit bureaus, you'll have to provide your Social Security number. It's okay.

5 MINUTES | $ ONE LESS WAY TO HAVE YOUR IDENTITY STOLEN

FREEZE YOUR CREDIT TO END ID THEFT Doing this prevents anyone from issuing credit in your name. (You, of course, can temporarily lift the freeze when you need a loan.) Nearly 30 states allow freezes even if you haven't been an ID theft victim. In some states you'll pay about $30 to place or remove—temporarily or permanently—the freeze. Go to consumersunion.org/securityfreeze.htm for instructions.

25 MINUTES | $ SAFETY FROM THE WORST KIND OF ID THEFT

HAGGLE DOWN YOUR CREDIT-CARD RATE Dial your issuer and ask for a lower rate. If your credit score tops 720, do not be satisfied until your rate is less than 10%, says Curtis Arnold of CardRatings.com. Your biggest weapon: Make it clear that you'll stop using the card if the issuer refuses. Our reporter, helped by the fact that she's been a good customer for seven years, got the rate on her Discover card cut by four percentage points.

8 MINUTES | $ WITH A LOWER RATE, YOU'LL FIND IT EASIER TO PAY OFF YOUR BALANCE FASTER.

JUST SAY PLEASE

78%
of credit-card holders who ask for a lower rate get it.

SOURCE: Synergistics Research.

UPGRADE TO A BETTER CARD Rewards, rates and fees change often. So search CardTrak.com to make sure you have the best deal. Among the lowest-rate cards on the site recently: Simmons First National Bank in Arkansas (800-636-5151) offers a fixed rate as low as 7.25% with no annual fee to consumers who have excellent credit.
30 MINUTES | $ YOU CAN APPLY FOR A CARD WITH A LOWER RATE OR BETTER PERKS.

ESCAPE LATE FEES Why mess with checks and trips to the post office? Why risk a late payment when, according to Consumer Action, 85% of credit-card issuers impose penalty rates that average 24.5% if you're late on one or two bills? Pay bills online at your bank. First register at the site. Then gather your bills. Many bank sites have a pull-down menu of merchants; select yours and enter your account number. Or plug in the name, address and account number manually.
6 MINUTES TO ENTER THREE BILLS | $ FEWER LATE FEES

TRIPLE (OR MORE) THE RETURN ON YOUR SAVINGS Do you have cash going nowhere in a checking or savings account? Bank money-market accounts typically pay less than 1%. You can open a savings account with HSBC Direct that recently paid 5.05%. No minimum balance is required. With your driver's license and Social Security number handy, visit hsbcdirect.com and click on Sign Me Up. You'll be walked through screens to enter personal information. Want to fund your account immediately? Have a check with your bank account number and routing code handy to authorize an electronic transfer.
10 MINUTES | $ AN EXTRA $200 A YEAR ON $5,000

SIGN UP FOR BOUNCE-PROOF CHECKS The median fee for bouncing a check recently hit $27.50, according to Bankrate.com. Call your bank or visit its website to sign up for overdraft protection. With that service, the bank will cover your check with money from a linked savings account. It may cost you $10, but that's less than half the charge for insufficient funds—not to mention what the payee demands.
9 MINUTES | $ NO $27.50 FEES

HAVE YOUR BANK WATCH OUT FOR YOU Avoid bounced checks and spot ID theft early by having your bank notify you when your balance falls below a certain level or when there's unusual activity in your account. Citibank, for example, offers alerts via e-mail or text message. To activate them, log into your online account and select Account Info and then E-mail and Wireless Alerts. You can add up to two e-mail addresses and a mobile-phone number for alerts. Use the menu of options to designate what updates you want.
4 MINUTES | $ FEWER BOUNCED-CHECK FEES

SAVE ON AUTO INSURANCE Simply raising your deductible can save you up to 30%. With an old car, drop your collision and comprehensive coverage when the car is worth less than 10 times what you pay for the insurance. Or shop for a lower premium at insweb.com, an easy-to-navigate comparison site. You'll be guided through five screens of information such as driving history, car make and model. A few minutes later the site will give you the lowest quote from its database (which doesn't include all the biggest insurers). Agents will also e-mail or call you with quotes from other insurers.
7 MINUTES | $ TYPICAL SAVINGS IS $50 A MONTH.

DOUBLE-CHECK YOUR TAXES Next April remember this: Before you seal the envelope or tap the key that whisks your return to the IRS, spend 35 minutes looking for easy-to-spot errors. Overlook a dependent (the one at college may count) and you could owe an extra $1,000 in taxes. Transpose your Social Security number and your refund may never arrive. Did you sign your return?
35 MINUTES | $ LOWER TAXES

35 DAY PLAN

Bring Order to Financial Clutter

Week 1 **GET PSYCHED** When you organize your financial paperwork, you're less likely to miss a bill payment and more likely to know exactly where your money is going, which could help you save.

Week 2 **PAY ATTENTION** Jot down in a notebook what you spend for a month. As Bob Goldman, a financial planner in Sausalito, Calif., puts it, the idea is to cut through the "grand amnesia of what happens to your money" after your paycheck lands in your bank account. Can't bear to record every latte and magazine for four weeks? Do it for one week and multiply each category by four; add in your monthly bills. Then take stock to see where you can cut back.

Week 3 **SHRED** You don't need most of the financial paperwork that's cluttering your life. You can throw out utility bills and credit-card statements within a few months. Hold on to pay stubs only until your W-2 arrives, monthly financial statements until you have year-end ones. Prevent new clutter from forming by opting for online statements from banks or brokerage firms.

Week 4 **FILE** Create a tidy home for the stuff you need to keep: tax returns (and backup documents for at least six years), insurance policies, deeds, annual brokerage, 401(k) and fund statements and receipts for major purchases. Develop a filing system—a simple alphabetical one or groupings like auto and home.

Week 5 **AUTOMATE** Move your bill paying online (see "Escape Late Fees" above). Even better: Set up automatic payments for regular bills that are due every month or quarter, like your mortgage, cable and insurance.

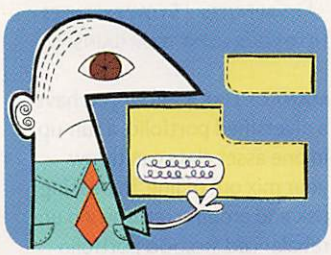
35-MINUTE MOVES

Earn more, keep more

= EST. TIME | $ = PAYOFF

ADD TO YOUR 401(K) You signed up for your plan right after you found the office vending machines. Now do more: Raise your contribution by a point. Save 10% of a $50,000 salary in your 401(k) and you'll have $1.4 million in 35 years, assuming 8% returns and 4% annual raises. Ramp that up to 11% and you'll earn around $140,000 more. Call your plan or visit your 401(k)'s website. At 401(k)s administered by Fidelity, for example, raising your contribution takes all of three minutes.

3 MINUTES | $ AN ADDITIONAL $140,000 OVER 35 YEARS



KEEP MORE OF YOUR PAYCHECK A generous tax refund means you are overpaying the government. To have fewer dollars plucked from your paycheck, claim more exemptions on your W-4 form (to see if you can, use the withholding calculator at irs.gov). Print out a W-4 at the IRS site or from your company's intranet. With last year's tax return, a pay stub and a calculator handy, filling out the worksheet on page 2 takes about half an hour.

30 MINUTES | $ YOU KEEP THE MONEY YOU HAD LENT THE IRS.

GET A TAX BREAK FOR DAY CARE Make this the fall that you finally sign up for a flexible spending account for health-care and dependent-care expenses. Your boss takes pretax dollars from your paycheck; you tap the account for contact lenses, day care and the like.

35 MINUTES | $ TAX SAVINGS ON EVERY DOLLAR YOU PUT IN

PAY LESS FOR YOUR CELL Know what your employer hates? Raises. What he likes? Perks that cost him nothing. At some firms, employees qualify for cell-phone discounts of up to 20%. To see if you get a Verizon discount, go to verizonwireless.com/getdiscount and plug in your e-mail address; for AT&T, go to wireless.att.com/home.

1 MINUTE TO CHECK AT VERIZON | $ 20% OFF YOUR CELL BILL

35 HOUR PLAN

Look Out for Your Family

Week 1 **FACE FACTS** No one likes to plan for his or her own mortality—perhaps that's why 55% of Americans don't have a will, according to a survey by FindLaw.com and Ipsos Public Affairs. And many have insufficient life insurance. (See "Estimate Your Life Insurance Needs" on page 76.)

Week 2 **LEARN THE LINGO** You'll need a lawyer's help drafting essential estate-planning documents, but it helps to know what your lawyer is talking about first. Go to cnnmoney.com and read Lesson 21 in the MONEY 101 series to acquaint yourself with the basics, like the difference between a living will (which dictates your wishes about life support in case you are incapacitated) and a living trust (which places your assets into the hands of a trustee).

Week 3 **TALK** Air out the stuff you'd rather not think about: who should bring up your young children if you and your spouse die young, what measures would you want taken if you became incapacitated and who should get your assets.

Week 4 **MEET** Armed with with this knowledge and a plan, make an appointment with an attorney. In addition to a will or living trust, you'll need a durable power of attorney (which lets someone else handle your business if you can't) and a health-care proxy (which empowers someone to make health decisions for you). Depending on the complexity of your estate, you'll pay from $750 to $3,000.

Week 5 **SIGN** Swing by your lawyer's office again to review and sign the papers.

35-MINUTE MOVES

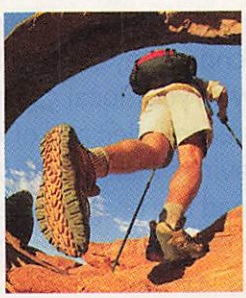
Save on health care

CUT DRUG COSTS Many employers use a pharmacy benefit manager (PBM) such as Medco or Caremark to administer prescription drug coverage. Ordering your meds through your PBM can cut your co-payments by 15% to 35%, or by nearly $90 a year for the average drug. Call your PBM or go to its website (have your prescription drug coverage card handy) to check mail-order prices and sign up.

16 MINUTES AT MEDCO | $ 15% TO 35% LOWER DRUG CO-PAYS

NO MORE WAITING ROOMS Can't get in and out of the doctor's office in 35 minutes? You can see a physician's assistant or a nurse-practitioner in about 15 minutes, or so says MinuteClinic, one of the largest of the chains of walk-in medical centers cropping up in pharmacies or stores such as Target or Wal-Mart. That's fine for basic ailments like earaches, strep throat and pinkeye. Your insurance may not be accepted, which could leave you footing the entire $59 ear-infection fee. But you can stop by at lunch and not miss hours, or even a day, of work.

15 MINUTES | $ MORE TIME TO GET WELL—OR GET BACK TO WORK



BURN MORE CALORIES Nibbling an extra 100 calories a day will pack on 10 pounds in a year. Doing moderate exercise for 30 minutes a day will prevent that gain—and save you money. Obese Americans spend 26% more out of pocket on health care than normal-weight workers, according to a study in *Health Affairs*. They also take nearly twice as many prescriptions and earn $1.42 less per hour. 30 MINUTES A DAY | $ LOWER HEALTH COSTS

35-MINUTE MOVES
Invest wisely

= EST. TIME | $ = PAYOFF

BUY A FOREVER PORTFOLIO Putting together a complete fund portfolio was once a time-consuming chore. Nowadays target-date funds, which adjust the stock and bond allocation to smooth returns as you near a "target" retirement year, do it for you in minutes. Many 401(k)s offer them. For direct investments, use the low-cost options from Vanguard (800-851-4999) or T. Rowe Price (800-638-5660). At vanguard.com, click on the tab labeled Research Funds and Stocks. Find the fund that corresponds to your planned retirement year, then download and look over the prospectus. Next click on the Buy This Fund link and follow the instructions. Have your checkbook ready to deposit funds electronically.
25 MINUTES | $ WITH ONE MOVE, INVEST LIKE A PRO FOR A LIFETIME.

BE LIKE WARREN It takes seven seconds on a high-speed Internet connection to download Berkshire Hathaway's annual report (available at berkshirehathaway.com/reports.html). Reading Buffett's letter to shareholders might take a full 35 minutes. The wisdom therein could put your investing head on straight for 35 years.
35 MINUTES | $ ALL THE INVESTING WISDOM YOU NEED

FIND PROMISING FUNDS You can cut through the 8,000 or so mutual funds out there by sticking to the MONEY 70 (page 72). Or run a screen for similar funds at morningstar.com (click on the Funds tab and go to the Mutual Fund Screener link). Pick a category, and then limit expenses to less than the category average (see why below). Next screen for funds whose managers have five years of tenure or more—greater experience is linked to better performance. Cut funds that failed to beat their five- or 10-year category averages.
5 MINUTES | $ LOW EXPENSES HELP YOUR LONG-TERM GAINS.

HOW THE STINGY GET RICH

Invest $10,000 in...	Value in 20 years
High-expense stock fund (1.5% a year)	$34,451
Low-expense stock fund (0.2% a year)	$44,780
Payoff for cutting costs:	+$10,329

NOTE: Assumes 8% annualized returns.
SOURCE: SEC Cost Calculator, sec.gov.

MANAGE LIKE A PRO If you have a diversified portfolio, a run-up in one asset class can throw your mix out of line, increasing risk and eroding returns. An unrebalanced $10,000 portfolio of 80% stocks and 20% bonds would have grown to $21,620 over the past 10 years. If you'd rebalanced annually, you'd have $22,213—and taken less risk to get there. Retooling a 401(k) is easy: With a big plan administrator like Fidelity or Hewitt,

35 WEEK PLAN
Find a Better Job

1 **REVITALIZE YOUR NETWORK** If you're smart, you've stayed in touch with folks who can help you now. Better yet if you've been helpful to them. When you get together, don't ask about jobs. "People feel used," says Pam Lassiter, author of *The New Job Security*. Instead, exchange ideas about the industry. Your goal is to get them thinking of you.

2 **GET TO KNOW YOU AGAIN** You need an honest overview of your skills, values and what makes you happy. Well-meaning friends may not be objective sounding boards. For that, hire a career counselor. Expect to spend at least $150 for every hour-long session, with a minimum of six meetings.

3 **LOOK FOR TRENDS** To see what talents are in demand, scan the help-wanted ads on sites like ExecuNet.com (minimum cost: $39 for 30 days) or Monster.com (free). Package yourself accordingly. Work up different versions of your résumé to highlight certain skills.

4 **DEVELOP A PITCH ABOUT YOURSELF** At an interview you need to be able to say succinctly why a company should invest in you. "The closer you can come to putting a dollar amount on what you've done, the better," says Lassiter.

••• **SAVE BRILLIANTLY FOR COLLEGE** A state 529 college savings plan is the best way to invest for your kid's higher education. With one check, you can buy a diversified portfolio that becomes more conservative as your child nears school. See cnnmoney.com/college for MONEY's guide to 529s in every state. Stick with your local 529 if it's a MONEY pick. But if your homegrown options are fee-laden and offer no local tax breaks, go with the Utah Educational Savings Plan (800-418-2551; uesp.org). Click on the Forms tab and download the program description and "form 100." Figure on 15 minutes to read, 19 minutes to fill out the agreement, one minute to fax. 35 MINUTES | $ TAX-FREE EARNINGS ON COLLEGE SAVINGS

Seth Wenig/Corbis (top); Rick Gayle/Corbis

rebalancing online takes minutes. In a taxable account, simply direct new money into the lagging fund categories.
4 MINUTES | $ BETTER RETURNS, LESS RISK

START SMART BY AUTOMATING If a $10,000 minimum investment is keeping you out of mutual funds, you have a quick work-around. Lots of funds let you in for much less if you agree to have your investment automatically taken out of your bank account. With T. Rowe Price's automatic asset builder (troweprice.com), you can invest in T. Rowe Price Blue Chip Growth (TRBCX), T. Rowe Price New Era (PRNEX) and many other exemplary funds with just $50 a month.
10 MINUTES TO SET UP ACCOUNT | $ A LOW-COST WAY TO SAVE THAT YOU CAN'T FORGET

35-MINUTE MOVES

Master home finances

GET CREDIT, EVEN IN A CRUNCH Apply for a home-equity line of credit. Don't tap it now unless you must (average rates are 8.75%). But in an emergency—say, when you've lost your job—you may find it tougher to qualify. Start by calling your bank, but go to bankrate.com to compare its offer with those from other nearby lenders.
15 MINUTES | $ A SUB-9% EMERGENCY CREDIT LINE

READ YOUR MORTGAGE Only now are many borrowers with risky loans finding that they misunderstood the terms. First pull out the one-page Truth in Lending Disclosure your lender gave you: The APR on it is the best estimate of what you are paying. Lower rates mentioned in other loan documents are likely come-on offers. If your rate is variable, scan the adjustable-rate disclosures section of your mortgage for the date it changes and the highest it can go. Examine every page for the words "prepayment penalty."
30 MINUTES | $ AVOID A MORTGAGE-RATE OR FEE SHOCK.

STOP OVERPAYING ON YOUR MORTGAGE If you carry private mortgage insurance but now have 20% equity in your home, see whether you can cancel. Your mortgage servicer (the phone number is listed on your bill) usually must oblige if your down payment and principal payments exceed 20% of your home's original value. Many will do so if rising prices have pushed your equity to 20%. In this case, canceling will take longer: Most mortgage companies require an appraisal, which costs around $300. But at homegain.com, realestateabc.com or zillow.com you can get an idea of whether your home value has risen enough to justify a call.
9 MINUTES TO LOOK UP PRICES | $ SAVE $50 TO $100 A MONTH ON THE MEDIAN $220,000 HOME.

••• CREATE AN INSURANCE RECORD Walk around your house with a camera. Shoot closeups of your jewelry, artwork and other valuables. If disaster strikes, this proof of what you owned will speed your claim and help you get a better settlement. Keep copies of the video or photos in your safe-deposit box or elsewhere outside your home.
29 MINUTES FOR A 2,200-SQUARE-FOOT HOME | $ A SURER AND MORE GENEROUS HOMEOWNERS INSURANCE PAYOUT

35 MONTH PLAN

Clean Up Damaged Credit

1 **LEARN YOUR REPUTATION** Order a free credit report and buy your credit score (see "Find Out Your Credit Score" on page 76) to learn how bad the damage is. With your credit score you'll find out the key reasons your score is not higher. If you find errors, correct them immediately.

2 **BE PATIENT** You typically need two to three years to fully repair terrible credit, says John Ventura, author of *The Credit Repair Handbook*. But take heart: Every act of good bill-paying and credit behavior on your report pushes your old rep further into the past and lifts your score.

3 **HAVE A PAYOFF PLAN** Track your spending for a month (see "Bring Order to Financial Clutter" on page 78) to see how much you can devote to retiring your credit-card balances. Attack the highest-rate debt first. The typical household, with $7,300 in credit-card debt at an average rate of 13.9%, could be in the black after 35 monthly checks for $254.89.

4 **SAVE TOO** Build a cash cushion for emergencies so that you don't have to run up high credit-card balances again.

5 **REWRITE HISTORY** You can add positive information to your credit report by paying bills on time and retiring your balances. Also, avoid applying for new credit that you don't need. Keep your oldest accounts open and active (use them at least every six months). Loyalty and unused borrowing capacity look good to a credit-scoring computer.

Paul Edmondson/Corbis

M35

35-MINUTE MOVES

Spend less on daily stuff

= EST. TIME | $ = PAYOFF

CURB IMPULSE BUYS By one estimate, two-thirds of all purchases are unplanned. To keep impulse shopping in check, ask the clerk to hold your wished-for item, then take a 10-minute stroll. Next ask yourself whether you truly need this sweater/video game/golf club and how you'll pay for it.
10 MINUTES | $ NO MORE RUNNING UP 15% CARD BALANCES

SPEND CONSCIOUSLY At the grocery store, you're up against tempting displays and smells in every aisle. To avoid being ambushed, you need to follow a strict plan. Take 35 minutes to make a shopping list that follows the layout of the store (no straying) and calls for stocking up on sales items. To see the specials at stores nearby, enter your zip code at mygrocerydeals.com.
35 MINUTES | $ AVOID IMPULSE BUYS AND CATCH EVERY DEAL.

SLASH RECURRING CHARGES It seemed like a good idea—for just $16.99 a month, you could rent three DVDs at a time as often as you wanted. But how often is that really? Scan your credit-card statement for those automatic monthly charges you normally just pay. Ask yourself whether you're getting your money's worth. How often do you go to the $75-a-month gym? How about that cheese-of-the-month club? Cancel what you're not using.
10 MINUTES | $ NO MORE MINDLESS CHARGES

35 YEAR PLAN

Build Lifetime Wealth

1 **OWN STOCKS** You can't beat the long-term returns: The S&P 500 has gained 10.2% a year since 1925, a record that no other asset class can match. Stocks may be riskier than bonds and cash in the short run, but you've got 35 years. This is where most of your money should be.

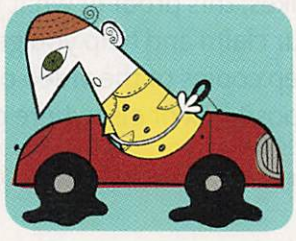
2 **PAY LESS** That 1.5% annual fee your mutual fund charges looks piddling, but it takes a big bite over 35 years. The difference between investing $10,000 in that fund and the same amount in one that charges 0.2% is $50,700 after 3½ decades (if both earn 8% annualized returns).

3 **START YOUNG** Putting money aside early is a surer bet than counting on high returns.

4 **DIVERSIFY** Owning a mix of stocks, bonds and other assets paves the way for smooth returns. As you get older, add more bonds to ensure that short-term swings in stock prices don't jeopardize your retirement.

5 **BUY A HOUSE** Mortgages are getting a bad name right now, so it's worth remembering their virtues: You can deduct the interest you pay; writing a check to a lender rather than a landlord is forced savings; and if you lock in a rate for the next 30 years, your payment will feel smaller and smaller as time marches on and inflation ramps up.

6 **GET AND STAY MARRIED** Researchers at Ohio State University found that divorce reduces a person's wealth by more than half, proving that when it comes to money, you're better off staying on a team.



BOOST YOUR MILEAGE About half of car owners don't test the air pressure on their car tires often enough, according to the Rubber Manufacturers Association. The recommendation: Do it once a month or before any long trip. The payoff: Properly inflated tires improve your fuel economy by 3.3%. You can buy a pencil tire gauge for less than $10. Check the pressure when your tires are cold. If they need air, head to a gas station within a mile of home.
7 MINUTES | $ SAVE THE EQUIVALENT OF 10¢ A GALLON.

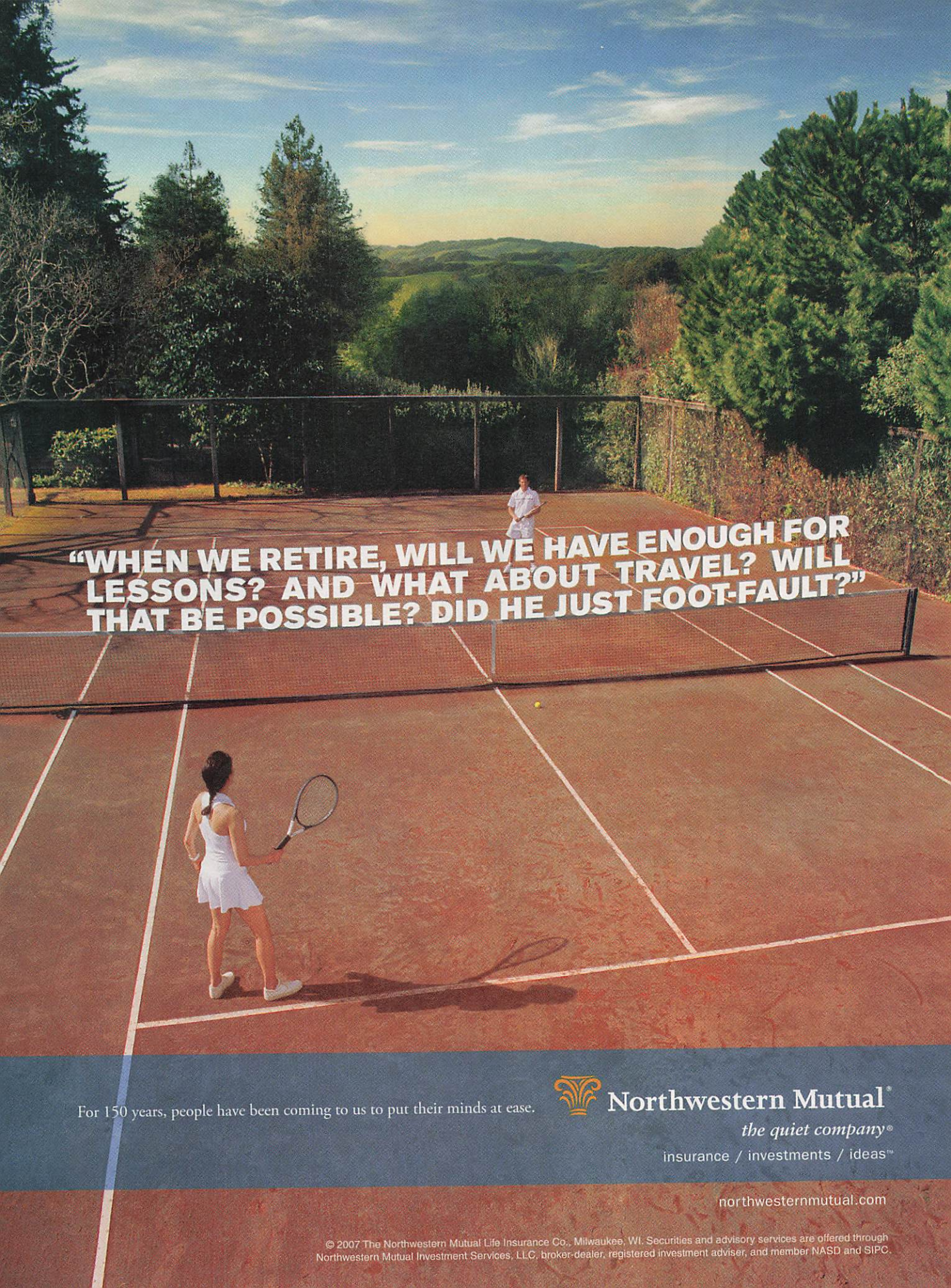
LOOK BEFORE YOU SHOP
Price range for Canon Digital Elph camera online
Highest price: $400
Lowest price: $206
SOURCE: Shopzilla.com.

FIND IT CHEAPER ONLINE Before you buy anything on the Web (or at a mall), spend a few minutes at a comparison-shopping site. Shopping.com and Shopzilla.com both scour the Net for bargains at a large number of online stores, but their results can vary. Looking to buy a Garmin GPS for your car? Shopping.com found one from a top retailer for $357.95; Shopzilla's find was $212.54.
30 MINUTES TO SEARCH AT TWO SITES | $ SAVINGS UP TO 60%

DEMAND A LOWER CABLE BILL Okay, it's not as simple as that—but almost. Call and complain that your bill is too high; repeat your message calmly ("This just isn't worth it to me anymore"). Make sure to casually use the words "satellite dish" (as in "I wonder how that compares with a satellite dish") or maybe "phone company." This strategy translated into a $20 monthly discount (for a year) in our test.
15 MINUTES | $ SAVE $20 A MONTH ON YOUR BILL. $

Brian Hagiwara/Corbis

••• **SAVE MORE THAN $1 A DAY ON WATER** At $1.50 a pop for a gallon of bottled water at the supermarket, the desire for healthy hydration adds up. By purchasing a water filter, you can cut your family's water costs to 19¢ a gallon. Order a Brita Riviera pitcher at amazon.com for $27. Replacement filters good for two months are $9 each. 4 MINUTES | $ YOU'LL SAVE $1.31 A GALLON.



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FOREVER YOUNG

Now that they're in midlife, **boomers are imagining the American dream all over again,** a new MONEY survey reveals. Topping the agenda: closer relationships and more fun. And, oh yeah, they still want to change the world. **BY MARLYS HARRIS**

HAPPY BIRTHDAY, BOOMER. IF YOU'RE AMONG the 4.3 million Americans born in 1957, when the baby boom hit its peak, you're turning the big five-oh this year. It's a milestone that has no doubt prompted you to reflect on where you've been and where you're going, what you've accomplished and what you still hope to do. In fact, it's an exercise that many of your 78 million fellow boomers, all squarely in midlife, are engaging in these days.

The result of this en masse navel gazing, as with almost any other activity that boomers take on, is potentially profound. That's among the conclusions of an exclusive survey of nearly 3,000 boomers conducted for MONEY by Clark, Martire & Bartolomeo, an Englewood Cliffs, N.J. polling firm. For in re-examining their past and redefining their future, the survey shows, boomers are starting to form a new agenda, a reinvention of the American dream that emphasizes friends and family over making money, having fun over working hard, and making a difference in the community and the world. (In other words, you might say, they're going back to the future.) Above all, boomers want what they do to mean something to themselves and

Fifty is the new...?

51
Median age of boomers in the survey

40
How old boomers say they feel

PHOTO ILLUSTRATION BY **JONATHAN BARKAT**

others. And because of the force they exert by their sheer size, what boomers want, the rest of the country seems to want too. This new American dream signals a shift away from the pragmatic, more materialistic goals that characterized the old one: a house, two cars, a steady job and a good income. (By now a lot of boomers have those things anyway.) Says Steve Gillon, author of *Boomer Nation: The Largest and Richest Generation Ever and How It Changed America*: "Unlike previous generations, boomers have the freedom and the resources to contemplate not just survival, but fulfillment."

Whether boomers will be able to achieve this new American dream, the survey makes clear, is still an open question. To pull it off, they have to be physically up to the challenge. But while 85% of the respondents listed maintaining their health as an important goal and three-quarters considered themselves healthy now, an almost equal number (69%) admitted to being at least somewhat out of shape. And while materialistic goals no longer appear high on the boomer agenda, you need to be in decent financial shape to be able to cut back at work, travel, and pursue hobbies and similar goals that the respondents did aspire to. Yet boomers have not been particularly diligent about saving for this next act. For instance, nearly half of those surveyed (45%) said they don't think they will be able to save enough to maintain their standard of living in retirement.

But those niggling details haven't stopped boomers from dreaming big dreams. That's clear not just from the survey but also from the hundreds of responses we got when we asked boomer readers to share their most heartfelt goals with us. (See the next story.) Striving for something important makes you more confident about the future. Our survey found that no matter what your financial situation is, the very act of setting goals is linked to feeling happier and more satisfied with your life. And that's a worthwhile lesson for every generation.

TIME IS ON OUR SIDE, YES IT IS

One thing's for sure: Boomers are still filled with the youthful optimism it takes to make those big dreams happen. More than 70% of the respondents in our survey said they feel younger than their age (close to half feel younger by 10 years or more), and nearly six out of 10 believe they're still in their prime.

Of course, reinventing yourself is a favorite boomer sport. "Twenty percent changed their religion, 50% changed spouses," says Ken Dychtwald, president of Age Wave, a consulting firm, and author of *The Power Years: A User's Guide to the Rest of Your Life* (co-written by MONEY columnist Dan Kadlec). "For boomers, new beginnings are a battle cry."

RIDE ON THE FRIENDSHIP TRAIN

The first word in that battle cry may be *relationships*. Topping the boomer to-do list (after staying healthy) is reconnecting with spouses, parents, children, grandchildren and friends. Among the survey participants, two-thirds of those who have kids and grandkids said that one of their most important goals is to spend more time with them, and 62% of those who are married mentioned more quality time with their spouses. Boomers are also looking beyond their families for connections. Nearly half of those surveyed ranked deepening existing friendships among their greatest aspirations.

What's driving the desire to reach out and touch someone? "During middlescence—that's the forties through sixties—you're so busy working and raising kids, you don't have time for anything else," says Dychtwald. "When you're older, you have time to rekindle old friendships—and forge new ones."

The problem wasn't only lack of time. Boomers also faced economic challenges, from slow job growth and stagflation in the 1970s to a withering away of benefits in the '90s and, more recently, the burden of caring for elderly parents while

You said you want a revolution

PERCENTAGE WHO THINK BOOMERS CHANGED THE FOLLOWING FOR:

better	worse
The role of women 82%	Peace 42%
Equal opportunity 69%	Poverty 35%

How'd you turn out?

Compared with what they thought they'd be like now, boomers said they are:

more	less
Interesting	Materialistic*
Happy	
Successful	

*Of the 10 characteristics we asked boomers to assess, this was the only one they judged as "less." The rest—being spiritual, involved with family or community and political leanings (liberal or conservative)—they said were "as expected."

NOTES: The MONEY Baby Boom survey was conducted online from June 11 to June 19, 2007 by Clark, Martire & Bartolomeo, an Englewood Cliffs, N.J. polling firm. The margin of error for the nationally representative sample of 2,908 baby boomers in the survey is approximately plus or minus two percentage points.

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raising kids. On top of that, there was the well-documented appetite for expensive cars, electronics and other luxuries. With all those financial stresses to worry about, boomers relegated relationships to the back burner.

BOOMERS JUST WANNA HAVE FUN

Not surprisingly for a generation whose mantra was "sex, drugs and rock 'n' roll," boomers have also loaded their wish lists with plenty of self-indulgence. If money were no object, 59% of respondents said, they'd enjoy life more by, for instance, traveling or buying stuff. And 86% said that at least one of the following is very important: a vacation home, working less, pursuing hobbies and putting adventure back in their lives. So will the future find boomers shooting Colorado River rapids and hiking through the Mombacho cloud forest? Some will, but don't bet on it, says Edward Kerschner, author of "The Next American Dream," a 2004 study of boomers for Smith Barney and Citigroup Global Markets. He describes boomers as "lazily active." They enjoy walking but not running; going on cruises but not swimming; and going for a drive instead of hiking.

GET A JOB SHA NA NA NA

To make time for fun, 49% of boomers who are still in the work force said they'd like to work less. Not that boomers are counting the days until they retire. Some 70% of the boomers in the Citigroup survey said they want to continue working, even if they don't need to do so for financial reasons.

One explanation may be boredom. A study by Age Wave found that retirees grow weary of their idleness after about a year or so. Boomers are also reluctant to give up entirely on the meaning and direction that work offers, says Larry Cohen, director of consumer financial decisions at SRI Consulting Business Intelligence in Princeton, N.J. "They'll time-shift and break from a rigid time path," he says. "They'll retire, and when they get tired of puttering around the house, they'll go back to work."

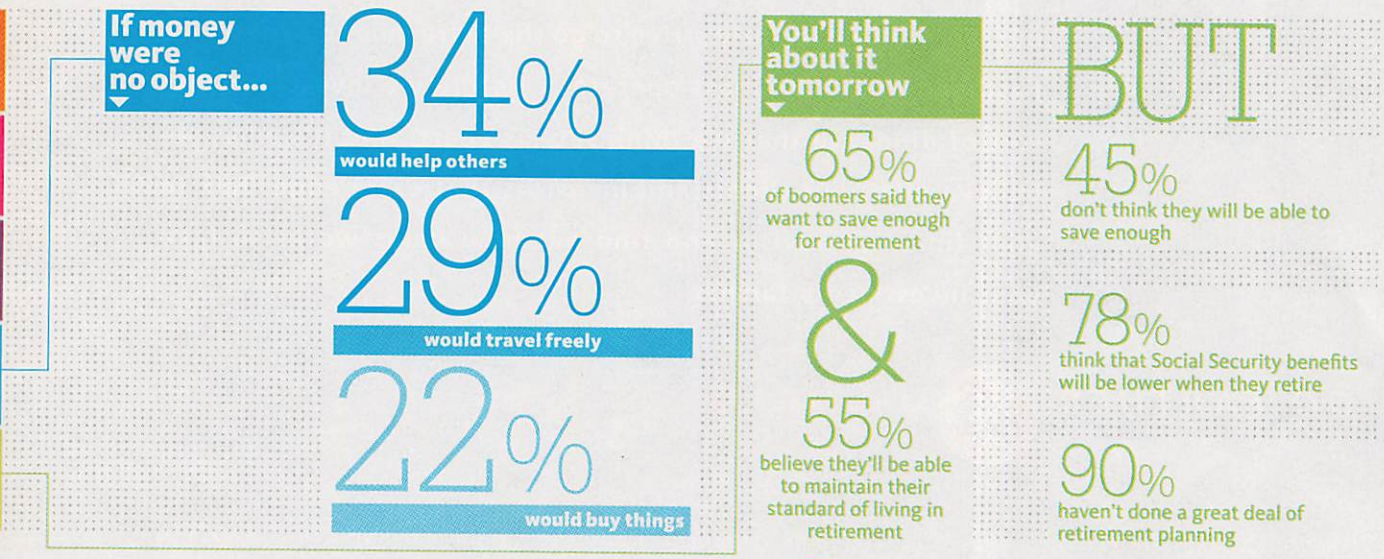
WE'LL KEEP ON FIGHTING TILL THE END

And what of all those '60s ideals about improving society? They haven't disappeared. One of boomers' biggest dreams: helping others. Asked about their definition of success, 37% cited "my contributions to my community." (That was third, behind the welfare of their children and career success.) Four out of 10 boomers think it's important to volunteer, and 36% want to reduce their impact on the environment. Only 19%, however, said they want to get involved with a political group. So sit-ins and protest marches are out for now.

What's in is volunteerism. Boomers already have the highest volunteer rate of any cohort in the population. But once they retire, former professionals, entrepreneurs and IT honchos are going to want to do something more significant than serve juice at the local hospital, says James Gambone, author of *ReFirement: A Boomer's Guide to Life After 50*. "They have tremendous built-in capabilities they will want to lend to nonprofits." In fact, some boomers are already leading the way, creating organizations like Peace Corps Encore, for ex-volunteers willing to accept overseas assignments, and Coming of Age, which enlists seniors for leadership roles in nonprofits.

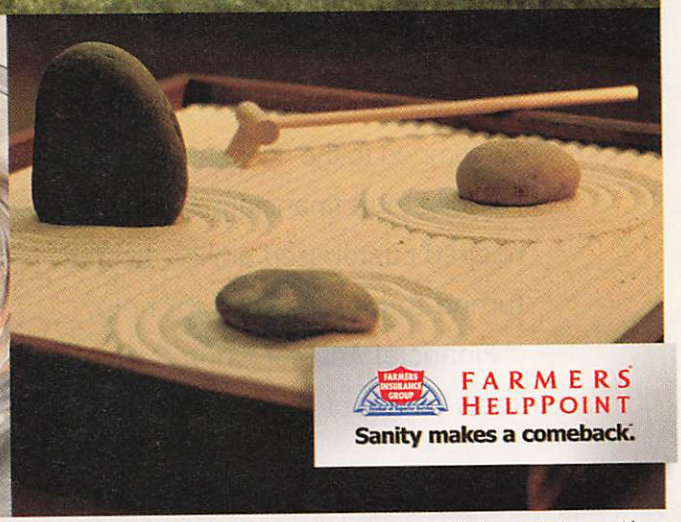
Perhaps it's in the realm of do-gooding that boomers will find the answer to their lifelong search for meaning. "At this point maybe you realize that it wasn't all about your kid getting into Harvard or your status in the workplace," says Landon Jones, author of *Great Expectations: America and the Baby Boom Generation* and a former managing editor of this magazine. "The big question is, What is my life all about?" **$**

FEEDBACK: *mharris@moneymail.com*


If money were no object...
34%
would help others
29%
would travel freely
22%
would buy things
You'll think about it tomorrow
65%
of boomers said they want to save enough for retirement
&
55%
believe they'll be able to maintain their standard of living in retirement
BUT
45%
don't think they will be able to save enough
78%
think that Social Security benefits will be lower when they retire
90%
haven't done a great deal of retirement planning

For more questions and answers from MONEY's exclusive survey, go to **cnnmoney.com/boomersurvey.**

Not available in all areas.



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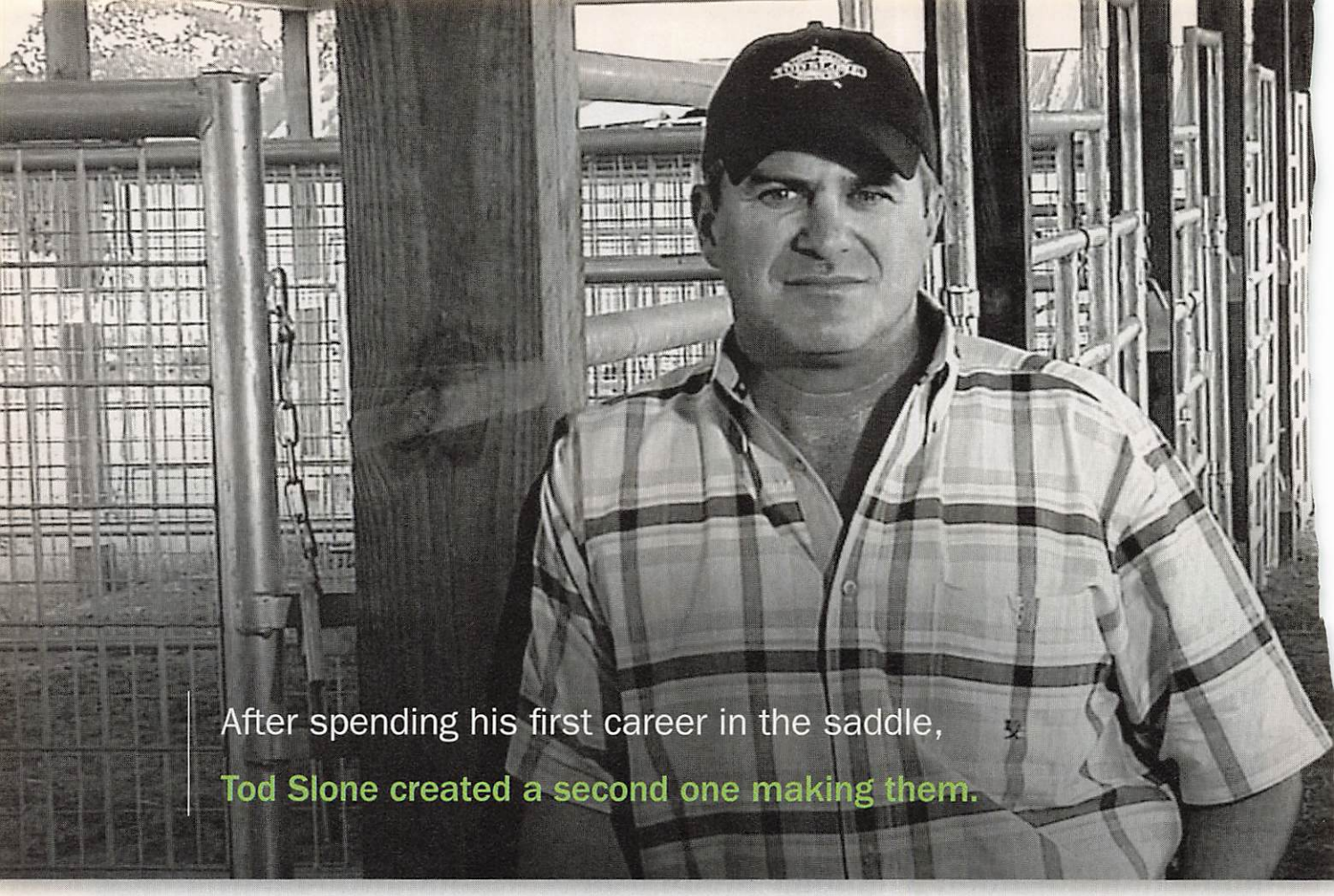

After spending his first career in the saddle,

Tod Slone created a second one making them.

After 11 years as a champion calf roper, Tod Slone knew a few things about rodeo work. He knew you needed talent. Timing. And a great saddle.

Like most entrepreneurs who turn a passion into a business, Tod started on a shoestring. His saddles were works of beauty, customized to the rider and the horse. For long-term financial planning, he needed customized advice, so Tod turned to Merrill Lynch for help.

Financial Advisor Chris Coppola knew all about the world of finance, but he took the time to understand Tod's passion for saddles and rodeos. He met with Tod's family and employees. Then he dug in.

"What I could bring to the table was guidance," says Chris, "to help them navigate the waters a little bit more efficiently."

And so they have. Last year, Tod and his 35 employees sold over 1,000 custom saddles. Each one the saddle of a champion.

True wealth is about more than money. It's about achieving life.[SM]

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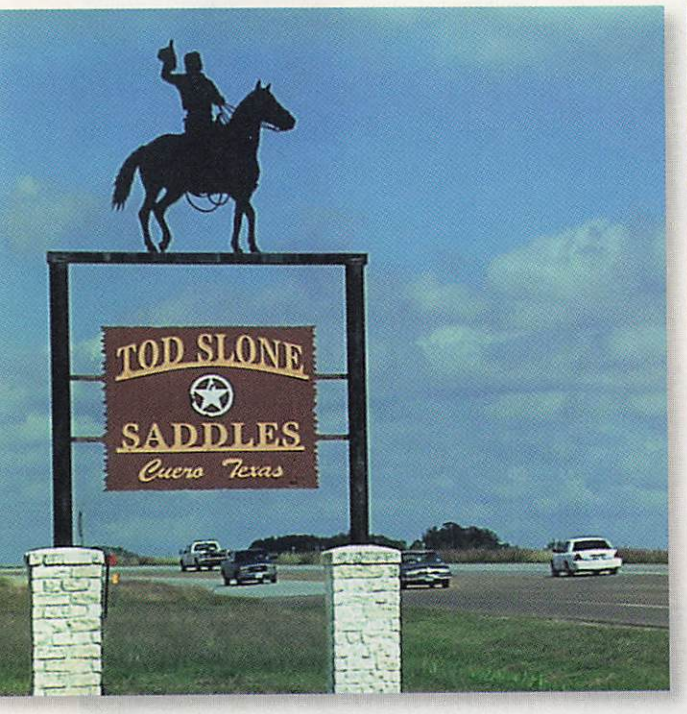

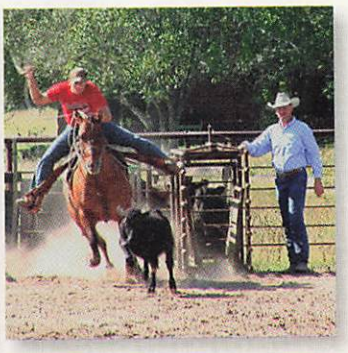

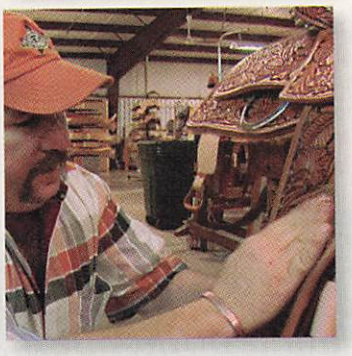

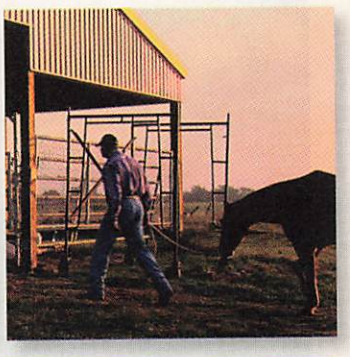

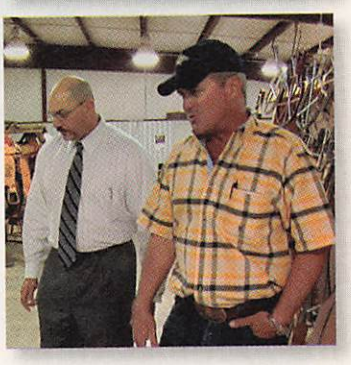

Find out more about how Tod Slone and other clients achieved the life they envisioned with the help of their Financial Advisors.
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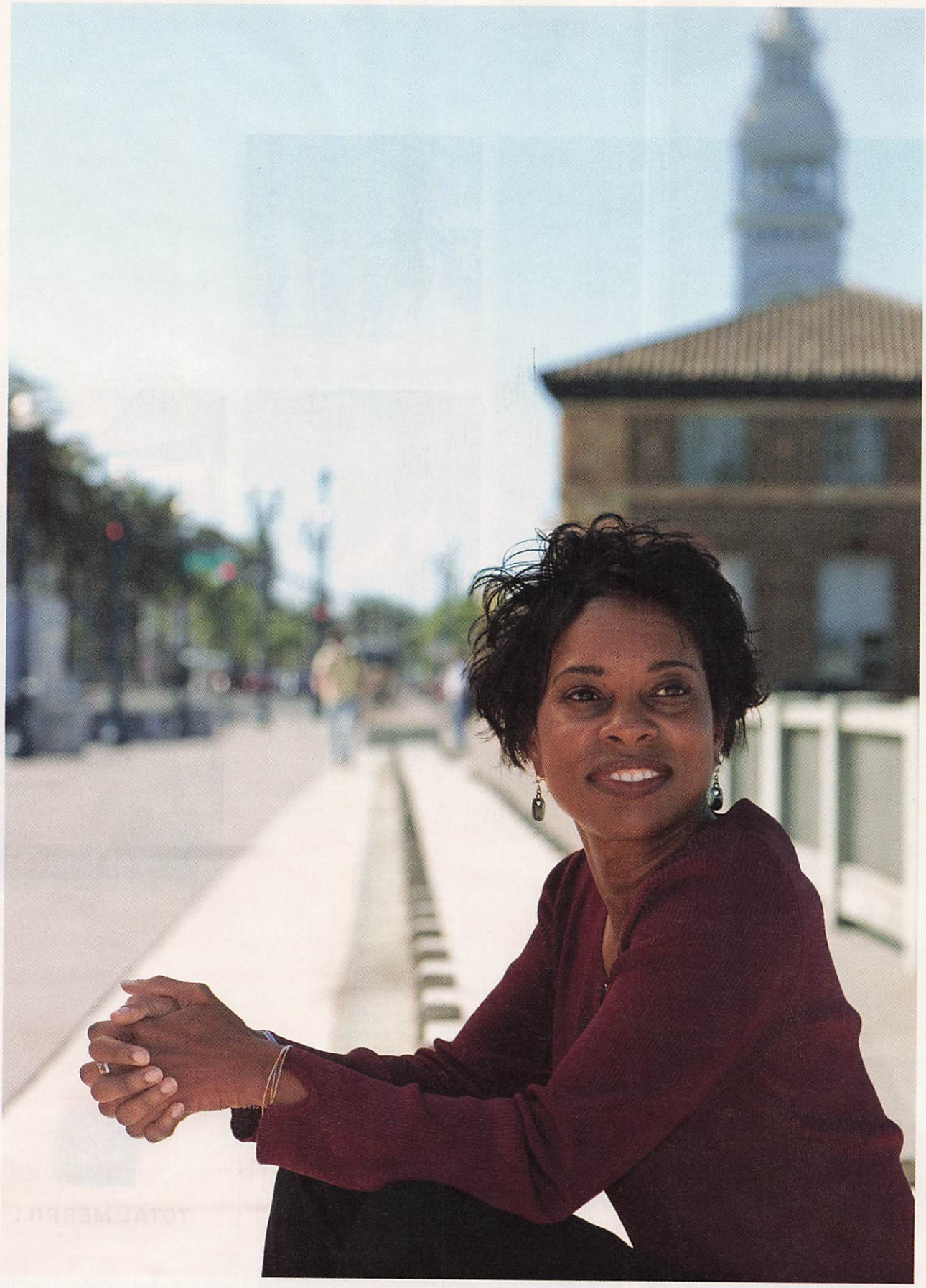


PHOTOGRAPH BY **SHELLY STRAZIS**

FROM DREAM TO REALITY

Five baby boomers, five cherished lifetime goals. And five smart game plans for making them come true. **BY DONNA ROSATO AND CAROLYN BIGDA**

Is there something you've always dreamed of accomplishing but haven't gotten to yet? Maybe you haven't figured out how to lay the groundwork. Maybe you can't imagine how you'd find the money to make it happen. Or maybe you're just now arriving at the time in your life when you can focus on that fantasy, and you could use a little inspiration. You'll be plenty inspired by these next few pages.

MONEY editors recently asked baby boomers to fess up to their most fervent dreams—and were inundated with e-mails from readers pouring out their longing for everything from their own business to the trip of a lifetime. Some of them appear in the faint type on this page. Of the hundreds of dreamers who responded, you'll meet five in this story. Read on for concrete advice from financial planners and other experts on how they can make their fantasies come true.

KRIS McKINNEY, 50
EVERGREEN, COLO.

"I want to help African orphans."

THE PLAN
Retire from her job and spend two months a year volunteering in Swaziland with the charity Young Heroes.

WHAT IT TAKES
- Annual air fare: $4,000 to $8,000
- Annual investment income (to replace salary): $34,000

THE DREAM McKinney, a partner in a family real estate investment business, longs to "combine my love of travel with doing for others." Inspired by a doctor friend working in Swaziland, she found a nonprofit group called Young Heroes, started by the country's government and the Peace Corps, that helps feed and clothe children whose parents have died of AIDS. She hopes to retire by 2009 and start spending two months a year volunteering with the group, traveling to and from Swaziland twice annually.

THE REALITY McKinney has a portfolio worth more than $1 million, plus $200,000 in a 401(k), and she'll get $400,000 more when she cashes out of her business in two years. She and second husband Mark, 54, a software developer (pictured above), are debt-free. But with no more earnings, McKinney will need to draw on investment income to replace her $34,000 salary. (Mark earns close to six figures but has only $150,000 in savings.) She'll have to factor in the costs of volunteering too, such as travel and insurance.

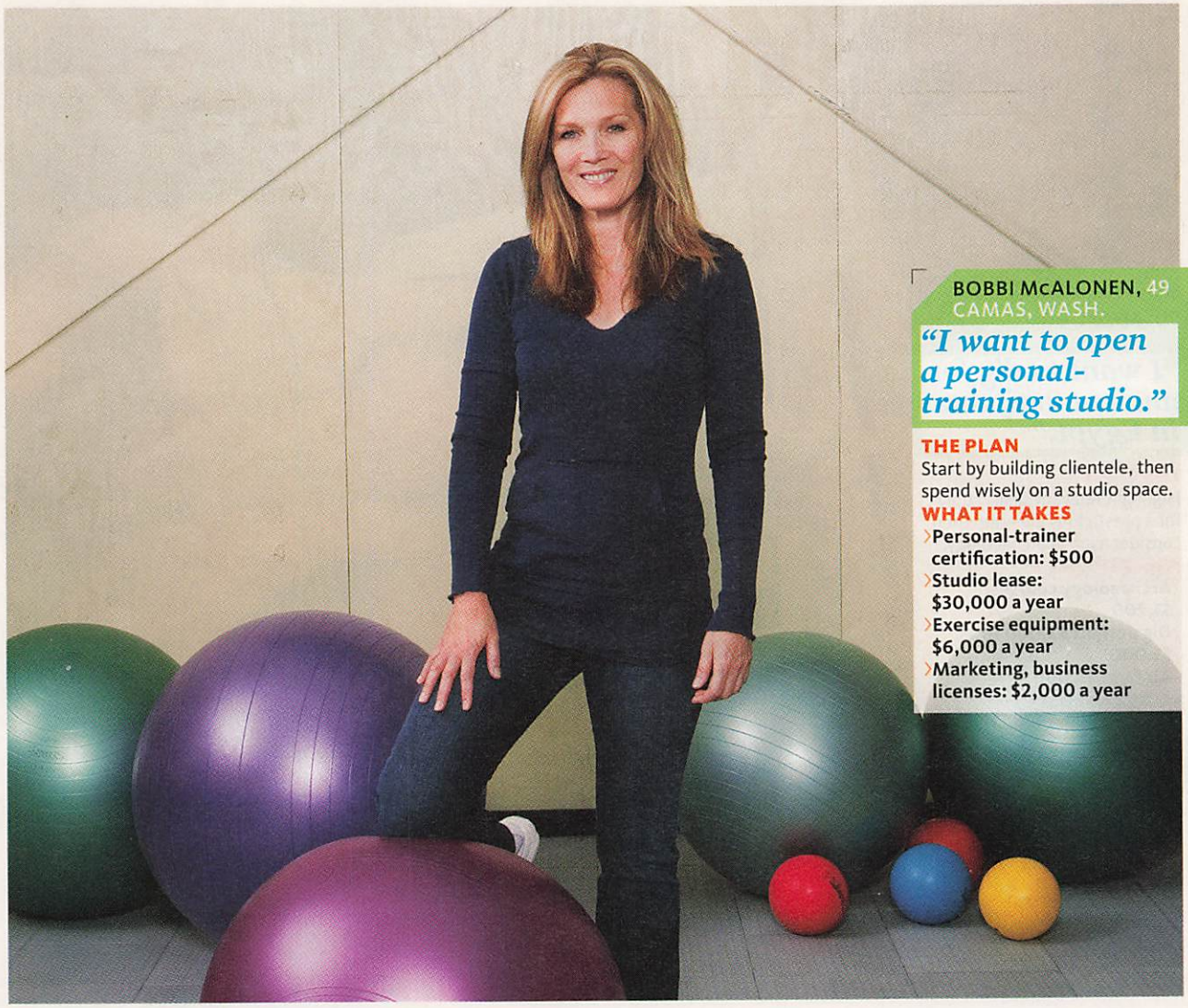
THE PLAN Holly Hunter, a financial planner in Portsmouth, N.H., says McKinney can do it if she takes these steps:

› **Create a steady income stream.** More than 95% of McKinney's portfolio is in stocks—too risky for her situation. Hunter recommends a mix of 60% equities and 40% bonds, which will generate more income and be less volatile. That strategy should allow her to spend up to $70,000 a year without having to worry about outliving her money.

› **Buy emergency insurance.** McKinney is covered by Mark's health insurance, but many insurers offer spotty coverage overseas. She should buy medical evacuation insurance ($200 to $300 a year) so she can be airlifted out of Africa in case of an emergency. Check out options at insuremytrip.com.

› **Research tax breaks.** To make her funds go still further, McKinney should take full advantage of tax breaks for volunteering. For example, she can deduct reasonable out-of-pocket expenses such as transportation and lodging.

PHOTOGRAPH BY DANIEL PEEBLES



BOBBI McALONEN, 49
CAMAS, WASH.

"I want to open a personal-training studio."

THE PLAN
Start by building clientele, then spend wisely on a studio space.

WHAT IT TAKES
- **Personal-trainer certification: $500**
- **Studio lease: $30,000 a year**
- **Exercise equipment: $6,000 a year**
- **Marketing, business licenses: $2,000 a year**

THE DREAM A typical week for this former aerobics teacher involves three five-mile runs, two weight-lifting sessions and a Pilates or yoga class. Now that her two children are in college, she wants to turn that passion into a personal-training studio for the over-40 crowd. "My husband has been successful with several businesses," explains McAlonen. "Now it's my turn." She is working toward her certification as a personal trainer from the National Academy of Sports Medicine; she then plans to build up a stable of clients and open the studio in two years.

THE REALITY McAlonen's husband Jay, an entrepreneur who runs an investment company, plans to put $25,000 into the studio. But they both agree that this is no vanity business; it must become self-sustaining. Luckily, the couple are in good financial shape: They have no debt, and they downsized to a condo after their children left home. They already have a comfortable retirement nest egg set aside.

THE PLAN McAlonen is wise to build a customer base before committing to a retail space, says David Morganstern, a financial planner in Portland, Ore. His tips:

- **Get credentials.** Personal-trainer certification is essential, as is staying up to date with continuing education courses.
- **Research the competition.** She should join a fitness trade association and quiz successful studio owners in nearby cities like Seattle, where she isn't a competitive threat.
- **Invest more money.** Total start-up costs for a personal-training studio run from $20,000 to $40,000, says John Spencer Ellis, CEO of the National Exercise & Sports Trainer Association. McAlonen should put together a simple business plan (sba.gov offers a primer) to project her revenue and costs.
- **Economize where possible.** McAlonen should rent equipment rather than buy it, sign up her trainers as contract workers rather than staffers, and lease space in a low-cost location such as a light industrial park instead of a retail storefront.

PHOTOGRAPH BY **JOHN CLARK**

SUSAN SKOGG, 52
PORTLAND, ORE.

"I want to dig for ancient artifacts in Egypt."

THE PLAN
Highlight relevant skills, apply for a prestigious dig—and then consider a job in archaeology.

WHAT IT TAKES
- **Archaeology courses: $1,200**
- **Dig permit: $2,000 to $5,000**
- **Air fare: $3,000**

THE DREAM As a child, Skogg wanted to be an archaeologist. Instead she became a businesswoman. In 2002 she resigned from a Wisconsin manufacturing company, getting a seven-figure payout and the ability to "take a break and do the things I hadn't always been able to do." That included traveling in Asia, moving to Portland, Ore. and taking archaeology classes. Her dream now is to earn a spot on a prestigious dig in Egypt with husband Michael, 40—and maybe then find a job in archaeology.

THE REALITY Thanks to the money left from her payout, Skogg can easily afford an Egyptian dig: Costs for Michael and her will total about $20,000, including air fare and side trips. But important digs won't take just anyone. They'll both have to submit résumés. Another consideration: If Skogg winds up in a museum job afterward, she'll make very little money—at the same time that Michael will be trying to launch a small business.

THE PLAN

› **Highlight your skills.** Skogg's archaeology classes will be helpful in getting her a spot on, say, a major dig among temple ruins in Luxor, says Rita Zawaideh, a travel agent in Seattle. She should also retool her résumé to focus on other skills she can contribute, such as setting up budgets or helping raise funds. Because Michael lacks that kind of experience, it will be harder for him to qualify—so she should consider going alone.

› **Plan early.** Skogg will need six to nine months to apply for a spot, win acceptance and get security clearance.

› **Go back to work.** Skogg isn't sure if she wants another job, but her nest egg will support annual spending of just $70,000—much less than the $150,000 she and Michael go through today. So the couple will have to earn some money, says Ellen R. Siegel, a financial planner in Miami. Assuming Michael's business is successful (and doesn't require investment on Skogg's part), they should do fine even if she brings home a modest museum salary.

PHOTOGRAPH BY **JOHN CLARK**

SCOTT BERKOWITZ, 52
ALBANY, N.Y.

"I want to open a music venue and make a CD."

THE PLAN
Forget the venue; it's too risky. Focus on the recording while saving for retirement.

WHAT IT TAKES
- **Studio space and recording equipment: about $20,000**
- **Backup musicians: $7,000**
- **Cover design, packaging, duplication: $3,000**

THE DREAM Music has been part of Berkowitz's life "forever," says the unmarried guitarist and singer. He earned an associate's degree in music and then played rock gigs on his native Long Island. Now he works at a company that sells child identification kits to law-enforcement agencies. But he continues to write and play, hitting open-mic nights now and then. Within 10 years, he'd love to open a club where he can play with other musicians, and he'd like to cut a professional recording. "I don't have anything concrete of my work," he says.

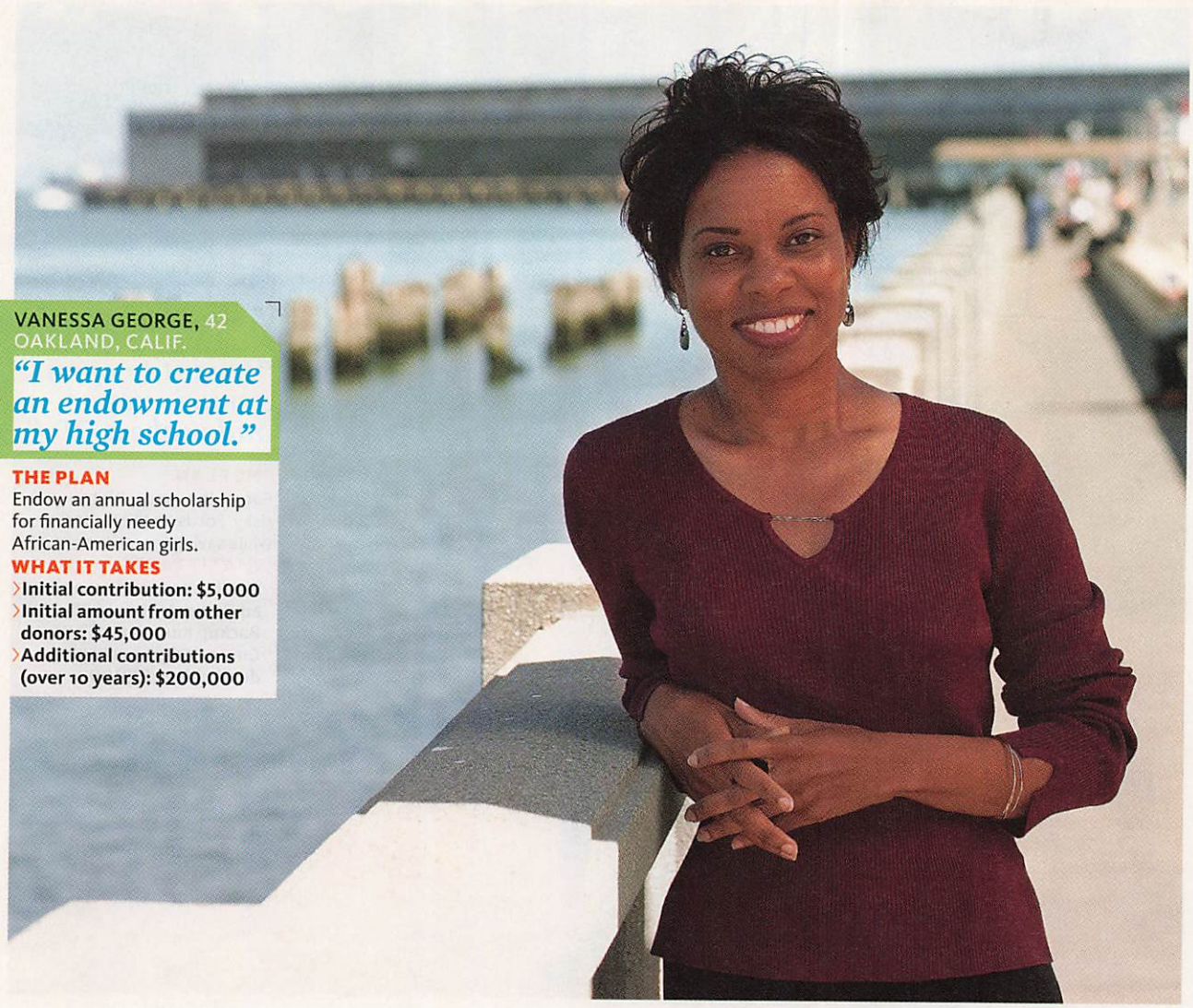
THE REALITY His dreams have two different price tags. Berkowitz figures that the club would probably cost more than $100,000 to start. The recording project would be cheaper—$30,000 or so. Meanwhile, Berkowitz, who earns $75,000 a year, is working on one other big financial goal: Save enough to retire with $53,000 in annual income by age 65, 13 years from now. He has socked away only about $100,000 so far.

THE PLAN Keith Newcomb, a financial planner in Nashville, says Berkowitz's retirement and recording goals are both doable. The club dream? Not so much. Opening a small business with expensive start-up costs in an industry that has a high failure rate is risky, and Berkowitz just doesn't have the cash to lose.

› **Focus on financial security first.** If he keeps contributing the max to his employer's IRA, his savings should grow to about $400,000 by the time he's 65. Combined with an expected $2,400 a month in Social Security payments, that should give him the retirement income he wants.

› **Start saving for the recording now.** The $30,000 is a good estimate, but Berkowitz should get quotes from recording studios, musicians and designers to see if that number *is* realistic, then bump it up a bit for inflation. If he puts away $300 a month at 6% interest, he'll have $35,000 in eight years. Because he'll be older than 59½ by then, he should use a Roth IRA as his savings vehicle: Both the earnings and the withdrawals will be tax-free.

PHOTOGRAPH BY **ASIA KEPKE**



VANESSA GEORGE, 42
OAKLAND, CALIF.

"I want to create an endowment at my high school."

THE PLAN
Endow an annual scholarship for financially needy African-American girls.

WHAT IT TAKES
- **Initial contribution: $5,000**
- **Initial amount from other donors: $45,000**
- **Additional contributions (over 10 years): $200,000**

THE DREAM A daughter of Panamanian immigrants, George attended Emma Willard, a topnotch private girls' high school in upstate New York, on a partial scholarship. "It was an incredible atmosphere," she says. "They opened doors I never knew existed." Now the director of development at a hospital, George wants to establish a permanent endowment to provide scholarships for financially needy African-American girls.

THE REALITY George, who earns $95,000 a year, hasn't got the $750,000 it takes to fund an endowment for a full four-year scholarship to the $36,550-a-year school. But Emma Willard requires only $50,000 to endow a $2,500-a-year permanent scholarship, a sum she could fund over five years. Once George hits the $50,000 mark, she can keep adding money to boost the scholarship level. She can put her own name on the scholarship if she wants to. And while she can't pick the recipients, she's encouraged to meet with them and mentor them.

THE PLAN

› **Budget wisely.** George, who is single and has no kids, can afford to put $5,000 toward the endowment over the next five years, says Kevin Dorwin, a financial planner in San Francisco.

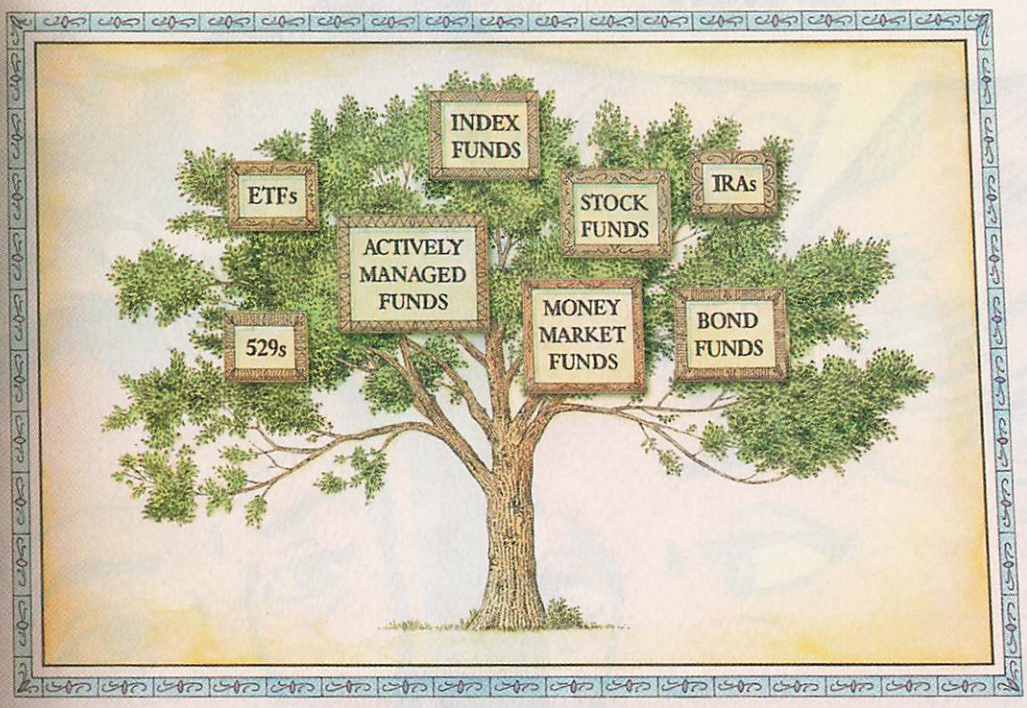
› **Enlist help.** The remaining $45,000 will have to come from fund raising. George's professional experience in this area makes that possible, says Lynda Moerschbaecher, a San Diego lawyer who specializes in philanthropic planning.

› **Calculate fund-raising expenses.** George might expect to pay about $5,000 up front over the five years to host fund-raising events, travel to see potential donors and do a mailing to alumni.

› **Beef up the endowment over time.** George can realistically aim to raise the endowment to $200,000 over 10 years. That would create a scholarship large enough to cover a third of a student's annual tuition, room and board. **$**

FEEDBACK: *drosato@moneymail.com*

PHOTOGRAPH BY **SHELLY STRAZIS**



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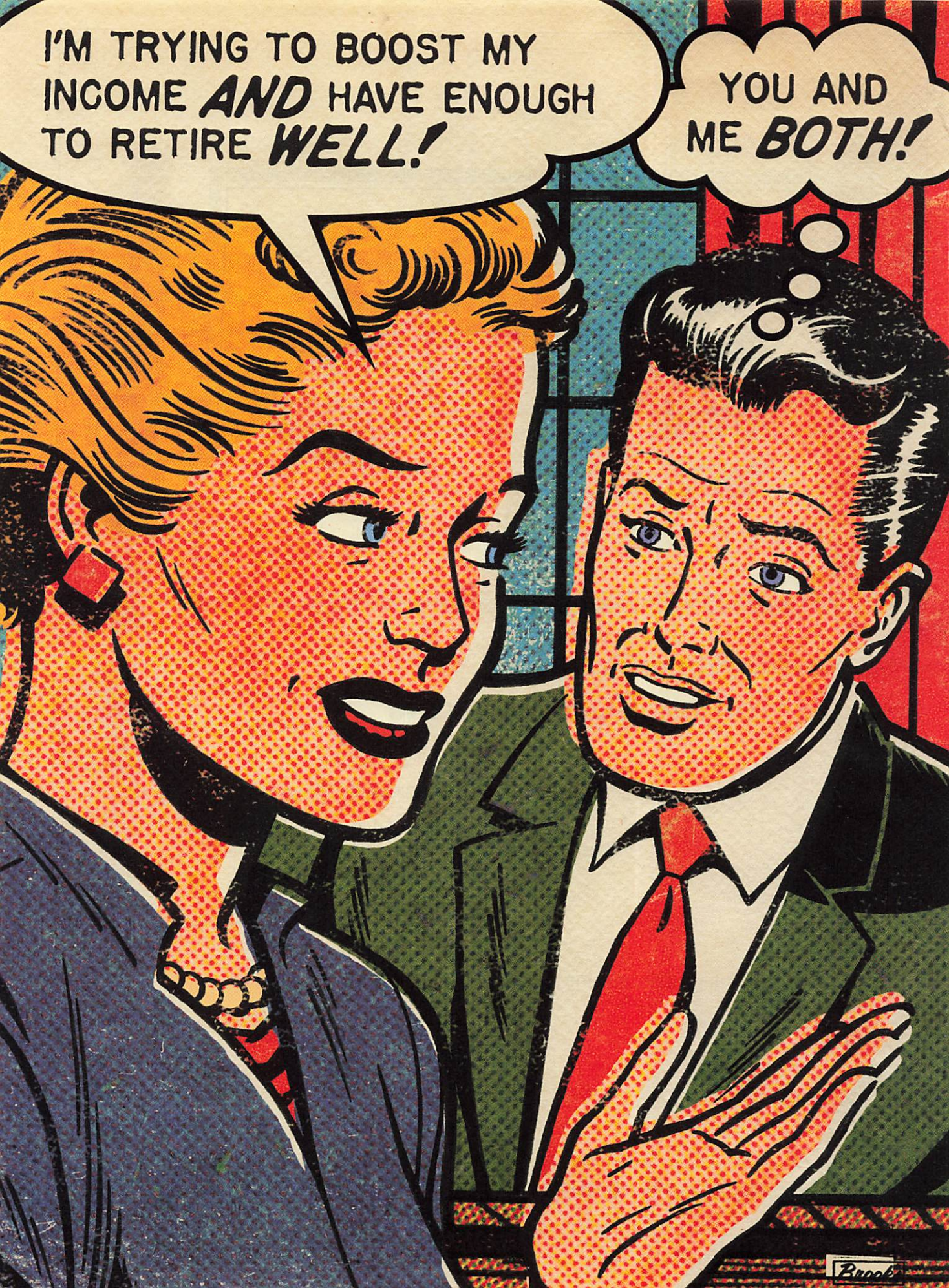
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YOU AND ME BOTH!
Brooks

INSIDE THE MIND OF YOUR ADVISER

BEFORE YOU TAKE YOUR FINANCIAL PRO'S ADVICE, CONSIDER WHAT'S BEHIND IT

BY **GEORGE MANNES**

When you seek out the guidance of a financial professional, it's for something big, something you feel you can't handle yourself. You're leaving your job and want to know what to do with your 401(k) plan. You've saved a tidy sum and now fear that your investments are poised to go down the tubes. Or you've just had your first child and already you're worried that you won't have enough money to send her to Yale.

Your options, as you seek help, are plentiful. More than 380,000 professionals in the U.S. make a living by giving people financial advice, according to Tiburon Strategic Advisors, a financial services consulting firm. That mass of people—who go by a variety of not-always-illuminating titles like financial consultant, wealth manager or investment adviser representative—includes professionals with a wide range of employers, expertise and ways of earning a living. You could hire an adviser who solely picks investments or one who guides you through every aspect of your financial life. You could find one at a brokerage, bank or two-room office. You could pay a fee on every penny you entrust to a pro or a commission on everything you buy.

These are variables you can spot. What's tougher to figure out is something that's not printed on a business card or fee schedule: the motives behind your planner's advice. An adviser, after all, isn't a robot. Just like you, he has a mortgage to pay and children to send to college. His workplace, like yours, is filled with rewards and

ILLUSTRATIONS BY **LOU BROOKS**

punishments. And nearly every financial decision he or she makes on your behalf can affect his or her finances too.

While your planner may vehemently deny it, the financial and psychological incentives built into the advice business sway the nature of the advice that's dispensed. Some of those influences—a hope that you'll be satisfied enough to refer friends, for instance—can work in your favor. But most incentives don't, even if your planner is a genuinely nice guy. "I think the majority of advisers have clients' best interests at heart," says Bing Waldert, associate director of the financial services research firm Cerulli Associates. Maybe so, but that's a paradox you face as a financial client. Your biggest challenge isn't to avoid crooks and incompetents (though both exist). It's to make sure you're getting the most from an adviser with good intentions—but with interests that may run counter to yours. The more you know about these motivations, the better you'll be able to ask tough questions (see the box on page 104) and choose the best action for yourself, not for the planner.

Where Greed Is Good

» When you're sitting across the desk from a financial professional, you should realize that there's a fundamental misalignment of interests. You're looking for sage advice. Chances are your adviser is looking to hit sales targets. However much your adviser's office strives to impress clients as a place of refinement and learning, behind the wood paneling it's a sales culture. Every influence, from crass coercion to gung-ho competition, is designed to increase revenue.

The organization can enforce its goals in brutal fashion. Consider the allegations in a class-action complaint filed in January against the insurance giant MetLife on behalf of clients. According to the suit, the amount MetLife would pay in health insurance premiums for agents who worked for the company was tied to sales quotas for certain company-owned mutual funds—an arrangement that gave advisers a compelling reason to favor MetLife funds over those from other companies. (MetLife says it can't comment on pending litigation.)

Similarly, ex-employees say that Lincoln Financial Advisors and AXA Financial doled out health insurance and 401(k) matches to advisers via formulas that favored the sale of company prod-

ucts, the trade magazine *InvestmentNews* reported. Lincoln Financial declined to comment; in a statement, the AXA Equitable insurance arm acknowledges that it requires "a measure of proprietary production" from advisers but adds that AXA doesn't forbid the sale of outside products and is committed to recommending only appropriate investments.

The sales culture isn't all threats. It's about the rewards too. In most workplaces, it's considered impolite to talk about what you make. In a brokerage firm or insurance agency, it's front and center. Enter a room of brokers, says former broker Patrick Collins, and the conversation revolves around how much business they produce. With good reason: The more they sell, the more they get to keep of the revenue they generate. (At firms such as Morgan Stanley, Smith Barney and UBS, top producers earn shares that are at least 50% bigger than what the lowest sellers make.) Regular memos from his manager, says Collins, spotlighted the latest big marketing push—and rankings of top sellers. "You would see people really jump on trying to sell more," says Collins, now a certified financial planner in Towson, Md. "People want to see their name at No. 1."

At his own weekly sales meetings, says former broker James Kibler, someone would present a new investment for sale. "Almost every time," says Kibler, a certified financial planner in New York City, "the first question was, 'So how do we get paid?' Then everyone would laugh."

Advisers are driven by more than money, says Keith Singer, an insurance agent who now works as a wealth manager in Boca Raton, Fla. At meetings, he recalls, agents wore ribbons on their name tags honoring sales achievements. When Singer was called onstage to be honored as a top first-year salesperson, "I felt amazing," he says. "Like a celebrity. Your identity is based on how successful you are selling company products."

After five years of working in operations and trading on Wall Street, Tim Maurer wanted to take his market knowledge and become a financial adviser. One interviewer rejected him, he says, because his financial expertise was no substitute for retail sales experience. "He said I'd have been better off if I were selling copiers for the past five years," says Maurer, now a financial planner in Lutherville, Md.

Sins of Commission

»As you know if you've ever bought a flat-screen TV or a time-share, commissions are the rule in sales professions. The advice business is no exception. But a commission adds up more when it's levied on an appreciating financial asset than when it concerns, say, a 46-inch TV. Imagine putting $50,000 in a fund that grows 7% a year on average; a $2,500 commission will nick nearly $10,000 from the value in 20 years.

Even though many planners and wealth managers charge fees instead of commissions today, if you have less than $100,000 to invest you may have few options but to work with an adviser who collects a cut on every fund or annuity he sells you. At banks or insurance companies—two of the few outlets that welcome people with relatively small portfolios—commissions are still the norm. At banks, two-thirds of advisers make their money primarily by commission or through commissions and fees, according to Cerulli Associates; at insurance companies, it's more like 90%.

The only way a commissioned adviser can help you is by selling you something. When you walk into an adviser's office, she could be thinking less about your needs than about what products she has that can be shoehorned into meeting your needs. Kent Grealish, an ex-broker who now works as an investment adviser in San Bruno, Calif., faced this problem when he was urging clients not to buy

✱ MAKE YOUR MATCH

THE BEST TIME TO DISCOVER YOUR PLANNER IS A PROBLEM IS BEFORE YOU HIRE HIM

You want a head-to-toe financial review, perhaps, or maybe someone to manage your investments. You've asked friends and colleagues for a few names. Now put some time into making your pick: "Sometimes people will do more research on where to eat for dinner than who they'll turn over their life savings to," says Beverly Hills securities lawyer Philip Aidikoff.

1 Know who you're talking to. You'll encounter lots of titles but four general types. An adviser who's a broker can sell you stocks or funds (which must be suitable but not necessarily optimal). A registered investment adviser, who also picks and oversees investments, must act in your best interests. A planner—ideally you want one who's qualified by a professional organization—can do a financial plan. An adviser at an insurance company will mainly sell you, well, insurance and annuities.

2 Be real about references. "Every good thief has a whole bunch of people who love him until he runs off with their money," says certified financial planner Deena Katz. So don't rely solely on testimonials from happy clients. Look up an adviser's record with regulators (see the box on page 106). Also, see if your accountant or attorney will suggest and stand by an adviser. Those pros, says Katz, have an incentive to avoid looking bad by recommending someone disreputable.

3 Interview an adviser before he interviews you. Ask an adviser about his practice before you say what you're looking for. That way he won't be tempted to tailor the answers to match your profile. "Don't spill your candy in the lobby," as Diane MacPhee, a business coach who works with advisers, puts it. Ask "Who's your typical client?" "What kinds of investments does that client have?" "What type of work occupies most of your time—planning or investment management?"

4 Talk money. Know how you'll pay for the advice and what your total costs will be. You might pay an hourly or flat fee, a percentage of your assets every year, a commission, a fund charge or a combo. No one method is always cheaper. With a small amount to invest, you may spend less with commissions. A pro who makes money only for giving advice (what's known as fee-only) has no financial motive to suggest a particular investment—but incentive to get more of your business.

tech stocks during the dotcom bubble. It was, he says, a "perverse" compensation system: "Sometimes by giving the right advice—don't buy—you didn't get paid," he says, "while you could be rewarded handsomely for giving bad advice."

Once you've bought an investment, your commission-generating potential has by no means been exhausted. Manhattan Beach, Calif. certified financial planner Eileen Freiburger recalls that on one of her first days as a bank branch manager a decade ago, an employee proudly showed her a thick file of customers whose annuities, he said, were "coming due." Problem is, annuities don't "come due"; these were annuities that soon could be surrendered without penalty, making it easier to switch these customers unnecessarily into new annuities and earn a new round of fat commissions. "I recall he ended with a 'cha-ching' and a wink," says Freiburger. When an adviser wants to swap out an old investment for a new one, press hard for a good reason why.

The Sum of All Fees

»As long as you're wealthy enough, it's easy to avoid paying commissions altogether. Driven partly by customer suspicions that advice is all about generating sales—and partly by Wall Street's desire to have more predictable fee income—the industry is moving away from commissions to fee-based advice.

Under this system, you might pay your adviser an annual fee that's calculated as a percentage of the value of your assets he oversees—ranging generally from 0.5%, if you've got millions, to 2%. (That same broker might also collect some of what you pay in mutual fund expenses, so ask.) Alternatively, you could pay an hourly rate for your adviser's time ($150 to $250) or a flat amount for a plan (say $2,000).

Does this ensure you'll get advice that's free of bias? No, you'll just encounter a different bias. Certainly a fee-based adviser has less incentive to urge you to buy and sell, though he may suggest portfolio shifts merely to show he's doing something for

his annual 2% fee. More important, an assets-under-management fee gives an adviser cause to discourage you from withdrawing any of your money, even if you'd be better off doing so. When you cash out $500,000 in stocks to buy a house, your adviser feels the loss. And management fees give him all the more reason to suggest ways for you to bring him more money—from swapping perfectly good bank CDs for bond funds to pulling equity from your home to invest.

The Best Fund (I Can Sell)

»When you walk into a Ford dealership looking for a minivan, the salesman isn't going to recommend a Toyota. The same is true for the many brokers and advisers who sell only from a limited menu. The difference? At an auto dealer you have no illusion that the guy will steer you to anything off the showroom floor. But when you're working with an adviser, you may harbor the fantasy—one that he and his company's advertising may encourage—that what he's offering are the best choices from a wide variety of companies.

At its most basic, that means that brokers paid on commission won't sug-

TOUGH QUESTIONS TO PUT TO YOUR PLANNER

ONCE YOU HAVE AN ADVISER, IT PAYS TO BE A PUSHY CLIENT

Face it: Your financial adviser's best interests don't always match yours. If you're feeling uneasy with the advice you're getting, pose some probing questions. They may seem awkward to ask, but the answers could put you at ease—or on alert.

	+ GOOD ANSWER	– UH, NOT SO MUCH
Q. This new fund you're suggesting I invest in, how long have you been selling it?	Five years now. I'm familiar with the management and have been putting all my clients in it.	Three weeks. We had an internal presentation on it last month.
Q. How much will you make on the deal?	I get an up-front commission of 5.75%. That's all.	I'm sorry, I have to take another call.
Q. Is there a less expensive way to pay for your help?	With the money you have, and the amount you trade, you're probably better off paying commissions, not an ongoing fee.	Don't worry. This is how everybody does it.
Q. Are there any good funds that you can't sell me?	Well, there are certain mutual fund families that aren't on my company's platform, but I think we offer a good selection.	Those other funds are garbage.
Q. Why do I need to replace my current investments with this new one?	The management style has changed at your mutual fund, and I'm not convinced that the new approach is a good one.	Well, that annuity has come due, and you can buy a much better one today.
Q. What are the tax consequences of selling this old fund at a profit?	I thought about that, and you'll be fine. You've taken a few losses that will offset this.	Search me. Talk to your accountant about taxes.

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→ Search for a certified public accountant specializing in financial planning at pfp.aicpa.org.

gest no-load funds. Don't be surprised if, when you're investing for your child's college education, a commission-earning adviser recommends not the no-load funds offered by your state but a broker-sold plan that pays her $5.75 for each hundred dollars you deposit. A sales push from advisers is why, for example, Maine's broker-sold 529 college savings option has more than $4 billion in assets, 10 times the amount in Maine's direct-to-customer one, which is also managed by Merrill Lynch but has annual expenses that are 50% lower. Suggesting that you open a 529 is good advice; just don't be led into overpaying for one.

Even if your adviser can offer you thousands of funds—many onetime no-load firms now have adviser-sold options—another consideration may be swirling through his mind: Some investments are far more lucrative to sell. The most glaring disparity occurs when an adviser offers annuities as well as funds. With mutual funds, he earns just a portion of the load you pay, which usually tops out at 5.75%. First-year commissions on variable annuities run as high as 9%, says Mary Rae Fouts, a life insurance analyst in Walnut Creek, Calif.; those for equity index annuities can be 18%.

If your adviser is paid more to sell a house brand over an outside fund, you'll be hard-pressed to spot that, because the commission you pay may be the same. What's different is what portion of that fee the broker collects. Uneven compensation is perfectly legal, and in this case your adviser doesn't have to mention it. (The Securities and Exchange Commission says that rules mandating disclosure of the practice are pending.) Don't just ask what you're paying. Ask what your adviser is making off you.

While an adviser or agent may give you the impression that he's not wedded to his company's products, his training may be telling him otherwise. Keith Singer remembers that when he was a rookie insurance agent, he asked a sales trainer during one meeting how to go about selling outside products. "He looked at me like I were a ghost," says Singer. "He wouldn't answer it. He was nervous even broaching the subject."

When he studied to be an insurance agent, Lutherville, Md. planner Tim Maurer learned sales techniques useful for steering a client into a profitable whole life policy while showing it alongside a less expensive term policy that might have been more suitable. "You're trained to present situations to customers as though they're the ones making the decision," he says. "But the whole point was to nudge them to do exactly what you wanted them to do."

Your adviser, steeped in the home-team culture of his company, may

believe that these limited choices are fine, just as your Ford dealer may be sure that he has the best cars. "It's very easy to get caught up in the thinking that this is as good as I can do," says former broker Kibler. "Because a lot of smart people are doing this, it must be in the best interests of my client." That's what your adviser may think. You, on the other hand, should think twice. $

VET YOUR ADVISER
HOW TO CHECK UP ON...

→**...a broker:** Start your research with the BrokerCheck system (brokercheck.finra.org). Look for disciplinary actions, customer disputes or a string of short-lived jobs. For more exhaustive information, try your state securities regulator—go to nasaa.org and click on "Contact Your Regulator."

→**...an investment adviser:** At adviserinfo.sec.gov, click on "Investment Adviser Search." Read the Form ADV Part 1A for the basics, including a self-reported disciplinary history. For an overview of a firm's services, fees and strategies, you need Part 2; if it isn't online, get it from your adviser. Also try your state regulator for more dirt.

→**...a planner:** See if your planner is in fact a certified financial planner—and whether he's ever been disciplined—at www.cfpboard.org/search.

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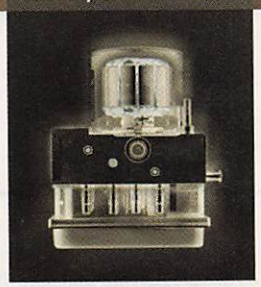

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ARE YOU BETTER OFF?

American life has grown fantastically richer since this magazine began. So why do you feel so much less secure?

BY PAT REGNIER

1972 → 2007

There are a lot of ways to answer the question posed in our headline. You could look at how much the economy has grown over the past 35 years. Or at what people are telling pollsters about their satisfaction with life. Here's an even more illuminating approach: Let's go shopping.

Specifically, let's go to Costco. It's hard to imagine such a nirvana of consumption existing when MONEY began publishing in 1972. (Costco Wholesale was founded in 1983.) Indeed, you can think of a Costco warehouse store as a kind of cinder-block monument to the sweeping economic change that has occurred since the age of Nixon's wage and price controls. →

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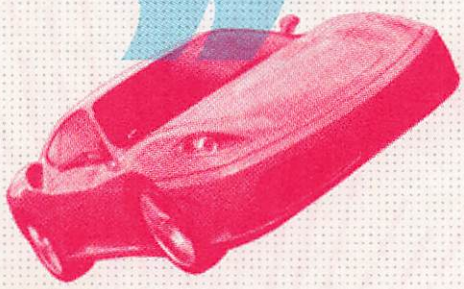
> With more money—and more credit—has come more stuff. Mountains of it.



Start with the dizzying plenty on those high-rack steel shelves. You may have come to save on toilet paper and a few other necessities. But when you push your double-wide cart through those oversize sliding doors, the first thing you see is a half-dozen high-definition televisions perched just right to compel you to gaze upward. Every time you visit, it seems, the screens are bigger, flatter and cheaper. Plunge deeper in and you'll find $20 designer-label shirts, $11 crates of South African clementines and, for just $7.50, 28-packs of bottled water. If you can forget the fact that you used to be quite happy to get water from the tap, you are much better off as a consumer.

As you make your way through the store, it may or may not occur to you that there's another side to these great bargains. The less it costs you at checkout, the less somebody else must be getting paid to make it or sell it, right? Here, Costco customers can feel a bit virtuous. The company is famous for paying good wages ($17.50 an hour on average), and it offers decent health insurance too. But here it's the exception that proves the rule. Wall Street analysts hector Costco to slash wages to the low standard set by Wal-Mart. In the wider tug-of-war between shareholders and wage earners, workers—except those in the executive suite—are losing ground.

Moreover, in every other way Costco is a model of the unsentimental efficiency that 21st-century capitalism demands. Costco's buyers are out scouring the global marketplace for the best deals, whether those goods are made by a middle-class union man in Ohio with a traditional pension (last one out, please turn off the lights) or by low-paid workers in Guangdong province. From shipping to the bare concrete sales floor, the business is so lean that Costco can hire far fewer workers than Wal-Mart or Target to generate the same amount of sales. That makes it a potentially fatal competitor. Whether you sell groceries, wine, surfboards or even coffins, a Costco rising at the nearest highway exit is indeed a fearsome sight.

If you own a piece of Costco's business, on the other hand, it's a beautiful thing. Costco went public in 1985—after the economy shook off the hyperinflation of the '70s and the crushing recession of the early '80s—as the great bull market in stocks really got rolling. A $10,000 investment then would be worth $360,000 today, and that's not counting dividends. (The S&P 500's not-too-shabby return would have gotten you to $72,000.) Costco shares now trade hands for 24 times earnings, a sign that investors think checkout lines will be snaking down the aisles for years to come.

So in one sense, the answer to the question "Are you better off?" is clear. Most families are materially richer. And the big economic shocks that made the 1970s so scary seem to have disappeared. Amid this plenitude and choice, you have more opportunity than ever to become who you want to be. Got an entrepreneurial itch? Drive to Costco and you can plug right into its taut supply chain, whether you're starting a graphic-design firm or opening an eatery. "Plenty of restaurants are buying their apple pies from us," says chief financial officer Richard Galanti.

On the other hand, it sure seems harder to plan for the future when your job or even your career could move to some other (cheaper) part of your industry's smooth-running global network. Saving for college or retirement has become much tougher too. The one choice you don't seem to have anymore is getting comfortable with a routine—and for grown-ups with a family life, a mortgage or a passion for a certain kind of work, that's a deeper loss than many New Economy boosters would care to admit. This is the irony: Even as the risk in the overall system has declined—and perhaps *because* it's declined—you and your family face the prospect of greater financial turbulence. It's a set of challenges that your mom and dad wouldn't have dreamed of back in 1972.

Welcome to the Great Moderation

From an economist's point of view, we live in strange times. So strange they now have a snappy label: the Great Moderation. In the 13 years from 1970 to 1983, the U.S. went through four recessions. In the 24 years since, we've had two. The latest, which came around the time of 9/11, turned out to be quite mild. Interest rates, unemployment and inflation have all trended sharply down.

What happened? There's still a robust debate about this, and dumb luck/random event remains a leading theory. It also helped that the Federal Reserve got better at the chess game of

managing inflation. But the most obvious change is that the world became flat, to paraphrase Thomas Friedman. (His book is just $9 at Costco, by the way.) In the '80s and '90s, the Iron Curtain fell and market economics took hold in Eastern Europe and Asia. At home, the government deregulated banking and transportation. And all over the place, money and goods started moving faster and farther than ever before.

It's now a simple matter to move a dollar (or euro or yen) from someone who has one to someone who wants one. So if a part of the country is slumping and another is strong, explains Gerald Carlino of the Federal Reserve Bank of Philadelphia, a bank in the boomtown can easily lend money in the weaker region, helping businesses there recover faster. Families too seem better able to use widely available, relatively cheap credit to smooth out short-term disruptions like job losses, says Douglas Elmendorf of the Brookings Institution.

At the same time, containerized shipping, trade deals and the Internet have transformed business. Former labor secretary Robert Reich, author of the new book *Supercapitalism*, boils the Great Moderation down to this formula: "Businesses have been able to reduce their fixed costs and rely more on variable costs." Instead of running a costly factory or call center, in other words, just contract it out. Switch when you find a better deal.

With this new flexibility, companies have gotten very good at adjusting to minute shifts in demand. Big suppliers of Costco can go online to monitor how their products are selling, and Costco can move merchandise in and out of its distribution centers and off to the stores in a matter of hours. "It used to be that you'd keep producing even though demand had fallen, and then suddenly you'd have way too much inventory," says Paul McCulley, the Fed watcher at bond manager Pimco. Since this doesn't happen as often now, the business cycle should be less volatile.

The Upside: Creativity, Credit and Stuff

The label Great Moderation makes all of this sound like a big yawn. Life in these times, though, has been anything but. For starters, work can be more fulfilling: Falling fixed costs and open access to capital have unleashed waves of creativity. Bloggers using free software can go toe to toe with newspapers relying on printing plants and delivery trucks. A couple of Stanford students can quickly turn a nifty search engine into a business worth more than General Motors. And this culture of change reaches far beyond the flashy tech world, says Carl Schramm of the Kauffman Foundation, a nonprofit that studies entrepreneurship. Just flip to the back pages of an in-flight magazine. "Companies are advertising injection molding there," says Schramm. "They're talking to a passenger on a discount airline who may have an idea for a better baby high chair."

The Great Moderation also coincided with what Harvard economist Claudia Goldin calls the Quiet Revolution in women's employment. It's not that more women go to work—that change was well under way in the '60s. It's that more women expect to have careers. Today about half of law and medical students are women, compared with around 10% in 1970. By itself the Quiet Revolution represents a huge advance in terms of freedom and overall well-being. It has also gone a long way toward pulling up standards of living. According to labor economist Stephen Rose, about 24% of adults in their prime working years live in households earning at least $100,000 a year. That's up from 12% (adjusted for inflation) in 1979.

With more money—and more credit—has come more stuff. Those two-professional families that marketers have christened the "mass affluent" can hardly find enough room to store it all; the average new house has 40% more closet space than in 1978. But perhaps the biggest change isn't in quantity but in quality. "Products that we'd feel lost and forlorn without today couldn't be had at any price in the 1980s," says Brink Lindsey of the Cato Institute.

Consider that in 1980 a good entry-level compact stereo with a tape deck and turntable cost a little less than $800 in today's dollars. Now that could buy you a wicked-fast home computer with good speakers and instant access, via the Internet, to millions of recordings (and it'll do e-mail and spreadsheets too).

All this new choice, argues Lindsey, has helped transform our culture into a 24/7 carnival of self-realization. Unlike the vast majority of humans in history, middle-class Americans can take for granted adequate

"Amid plenitude and choice, you have more opportunity than ever to become who you want to be."

food and shelter, not to mention countless little luxuries from your morning mocha to the car you drive *all by yourself* to work.

You have time to contemplate the meaning of life, and it's never been easier to explore the possibilities, whether through Internet social networks, books, music or new kinds of food. (Ask an older vegetarian what his life was like before Whole Foods.) You can wallow in Paris Hilton gossip but also get to know the museums of Paris. And if your passions are just a little off-center, well...in a lot of entrepreneurial companies today, nobody cares about the nose ring as long as you bring good ideas to the meeting.

It's not such a stretch to say that the Great Moderation is one reason your teenage son or grandson is a goth one week and a prep the next. It may also be why American politics so often seems to divide along cultural lines: Rick Warren-reading NASCAR dads vs. NPR-listening Volvo drivers.

The Downside: Big-Picture Anxiety

So is all this abundance making us happier? Apparently not. There's a whole academic subdiscipline devoted to figuring out why Americans don't report being any more satisfied with life than they were in the 1940s. (The good news is that we've been reasonably happy all along.) But maybe it's not so surprising. This is hardly the first time Americans have enjoyed life-changing technological advances, notes Jared Bernstein of the Economic Policy Institute. Think of radios bringing entertainment into every home, or washing machines freeing up women's time for leisure or paid work. Or the car opening up suburbia, and with it the chance for ordinary people to own a house and yard. And in some important respects, the past few decades have been unusually tough on those who aspire to improve their lot. Union membership has declined to just 8% of the private-sector work force, from 27% in 1972. While women's wages have climbed, the median pay for men has stagnated.

Plenty of professionals feel that they're struggling to keep up too. In the postwar heyday of the corporation, economic progress looked like a big march: Almost everyone moved forward, with families from the top of the scale to the bottom roughly doubling their income from 1947 to 1973. Today progress is a race: The median household income grew by only 13% in real terms from 1979 to 2005, while those at the 95th percentile took home 42% more. And despite shallower economic swings, says Congressional Budget Office director Peter Orszag, your

> "The traditional pension plan saved on your behalf and didn't let you touch the money. The 401(k) not only is voluntary but offers lots of ways to cash out."

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Equity Income	Value	18.57%	11.47%	11.32%	13.88%	8.01.94	0.97%

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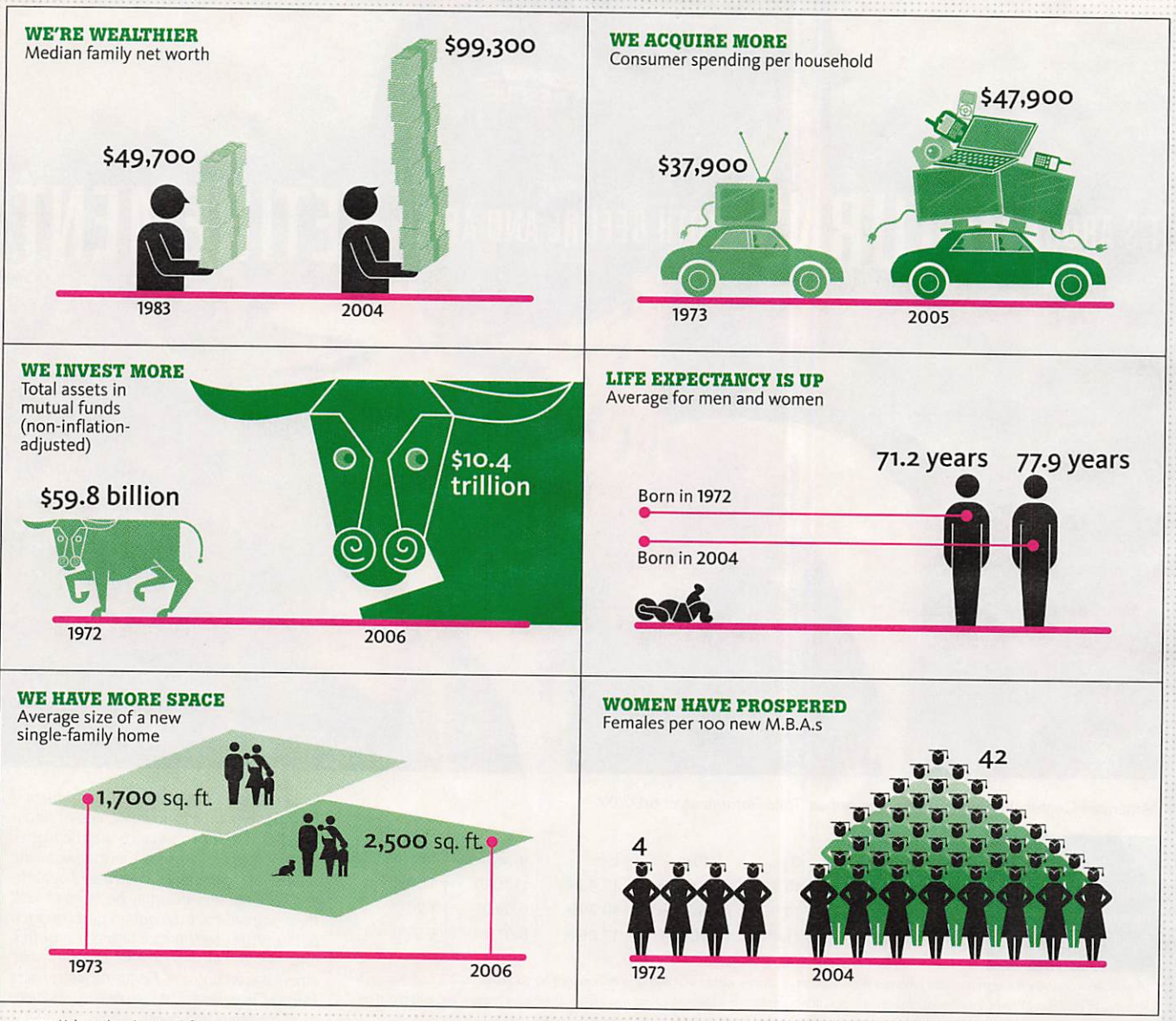
risk of taking a big hit to your income is just as high as it was in the early '80s.

After all, the other side of entrepreneurial energy is intense competition. *You* are one of those variable costs your company might decide to cut one fine morning. (And, Princeton economist Henry Farber has found, as of 2003 you were likely to make 14% less at the next job—even if you went to college.) Although flexibility has made the economy more stable, Reich notes, it also allows upstarts to force wrenching changes on established businesses; IBM no longer makes PCs. Kohlberg Kravis Roberts, the private equity group that invests in companies to "re-engineer" them, has stakes in firms employing more people than General Electric.

WE ARE SO MUCH BETTER OFF..

LIFE IS LONGER, RICHER AND FULL OF COOL THINGS



NOTE: Unless otherwise stated, financial data are per household in 2006 dollars. **SOURCES:** Federal Reserve; U.S. Bureau of Labor Statistics; Investment Company Institute; Centers for Disease Control and Prevention; U.S. Census; U.S. Department of Education; MONEY research.

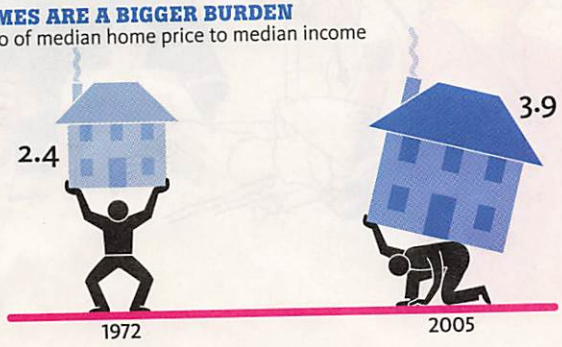
INFOGRAPHICS BY **NIGEL HOLMES**

Flux may be fun for the young and adventurous. It can get old after 30. "Children are not variable costs," quips Reich. And the fact is, most people still get fulfillment from mastering a job over time. In other words, even office workers value craftsmanship, says Richard Sennett, a London School of Economics sociologist who studies the culture of work. Doing it right is your mark on the world, even if you'll never be CEO. But it's tough to feel connected to work if you have one of those Chandler Bing jobs ("statistical analysis and data reconfiguration") that you can't explain to your kids and aren't certain will exist in three years. "When a company is changing and needs a new set of skills, one of its first impulses

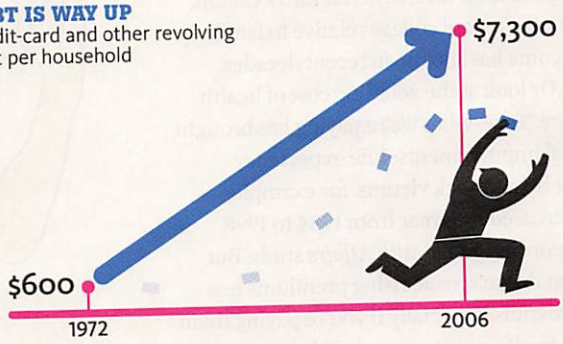
OR ARE WE? By some measures these are the best of times. By others, well, it's no wonder you feel anxious.

BUT IT'S ALSO RISKIER, AND KEY COSTS ARE STEEPER

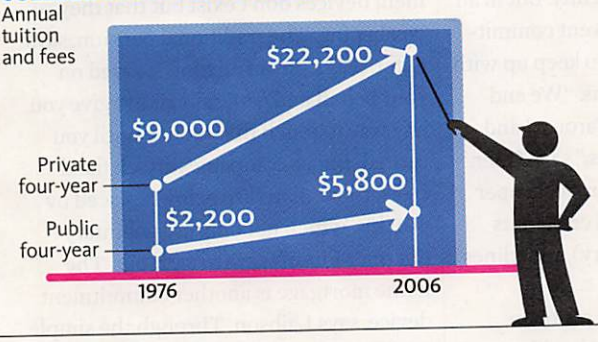
HOMES ARE A BIGGER BURDEN
Ratio of median home price to median income



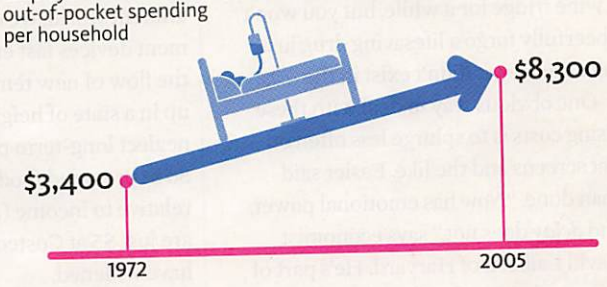
DEBT IS WAY UP
Credit-card and other revolving debt per household



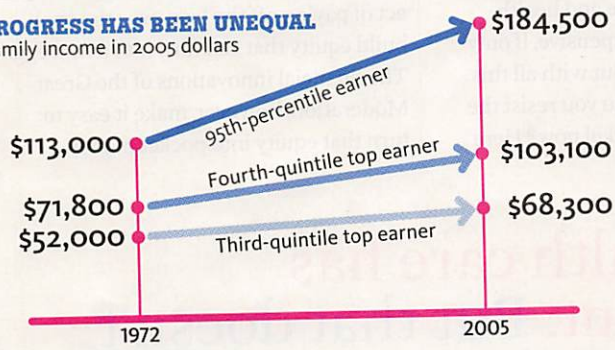
COLLEGE COSTS HAVE SOARED
Annual tuition and fees



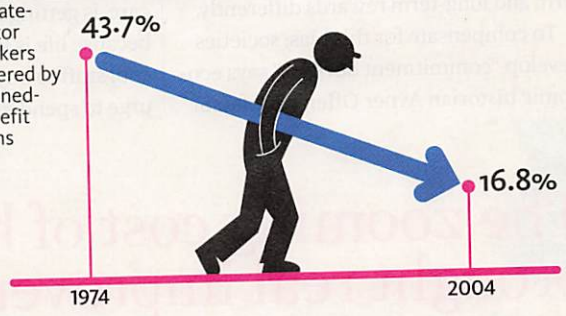
HEALTH-CARE COSTS ARE RISING
Employer- and individual-paid insurance plus out-of-pocket spending per household



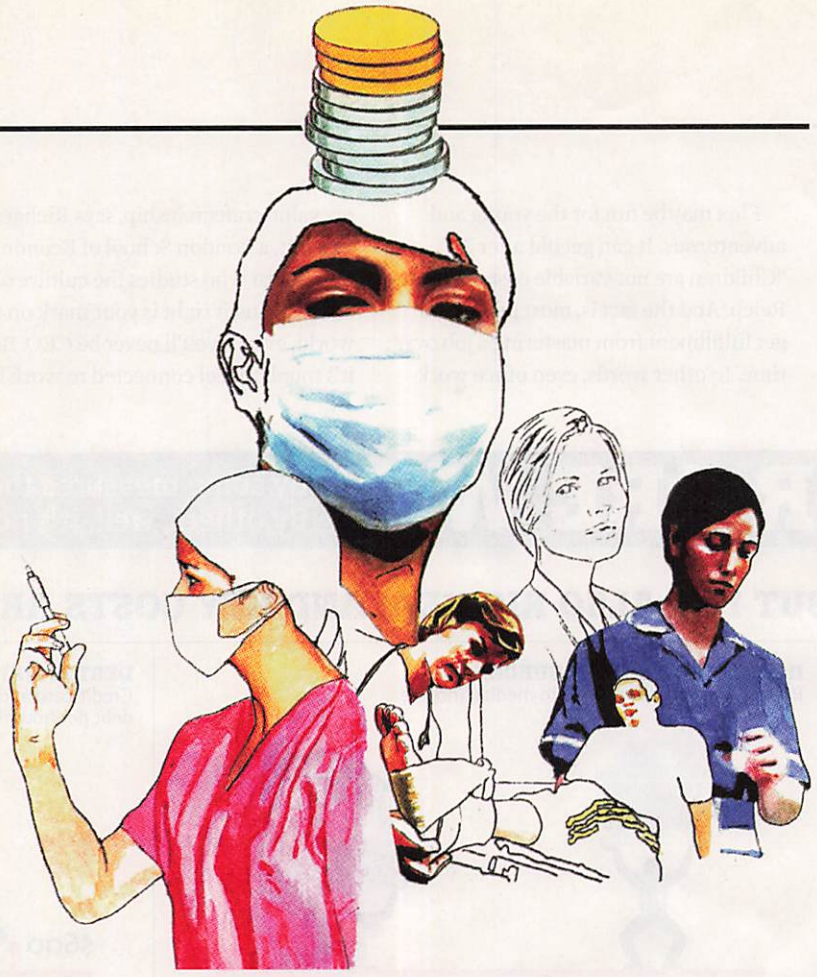
PROGRESS HAS BEEN UNEQUAL
Family income in 2005 dollars



PENSIONS ARE FADING
Private-sector workers covered by defined-benefit plans



NOTES: Unless otherwise stated, financial data are per household in 2006 dollars. Health-care costs are in 2005 dollars. **SOURCES:** National Association of Realtors; U.S. Census; Federal Reserve; College Board; Centers for Medicare and Medicaid Services; Employee Benefit Research Institute; MONEY research.



is to go out and hire new skills," says Sennett. "The age at which people feel they are over the hill is sinking." And that, he adds, undermines one of America's most cherished beliefs: that hard work moves you toward long-term goals.

Those goals have themselves become more elusive. As Elizabeth Warren and Amelia Warren Tyagi observed in their 2003 book *The Two-Income Trap*, a lot of really important stuff has gotten more expensive. Take college. Prior to the 1970s, a degree may have seemed optional. Now it's key to whether you keep up in the earnings race, says Harvard's Goldin. But the cost of college relative to family income has shot up in recent decades.

Or look at the zooming cost of health care. True, what we're paying has brought real improvements: Life expectancy for heart attack victims, for example, increased by a year from 1984 to 1998, according to a *Health Affairs* study. But that doesn't make rising premiums less stressful—especially if you're paying them yourself or you're worried about your job (and benefits) disappearing. You can be happy living without digital cable TV or a wine fridge for a while, but you won't cheerfully forgo a lifesaving drug just because, hey, it didn't exist in the '70s.

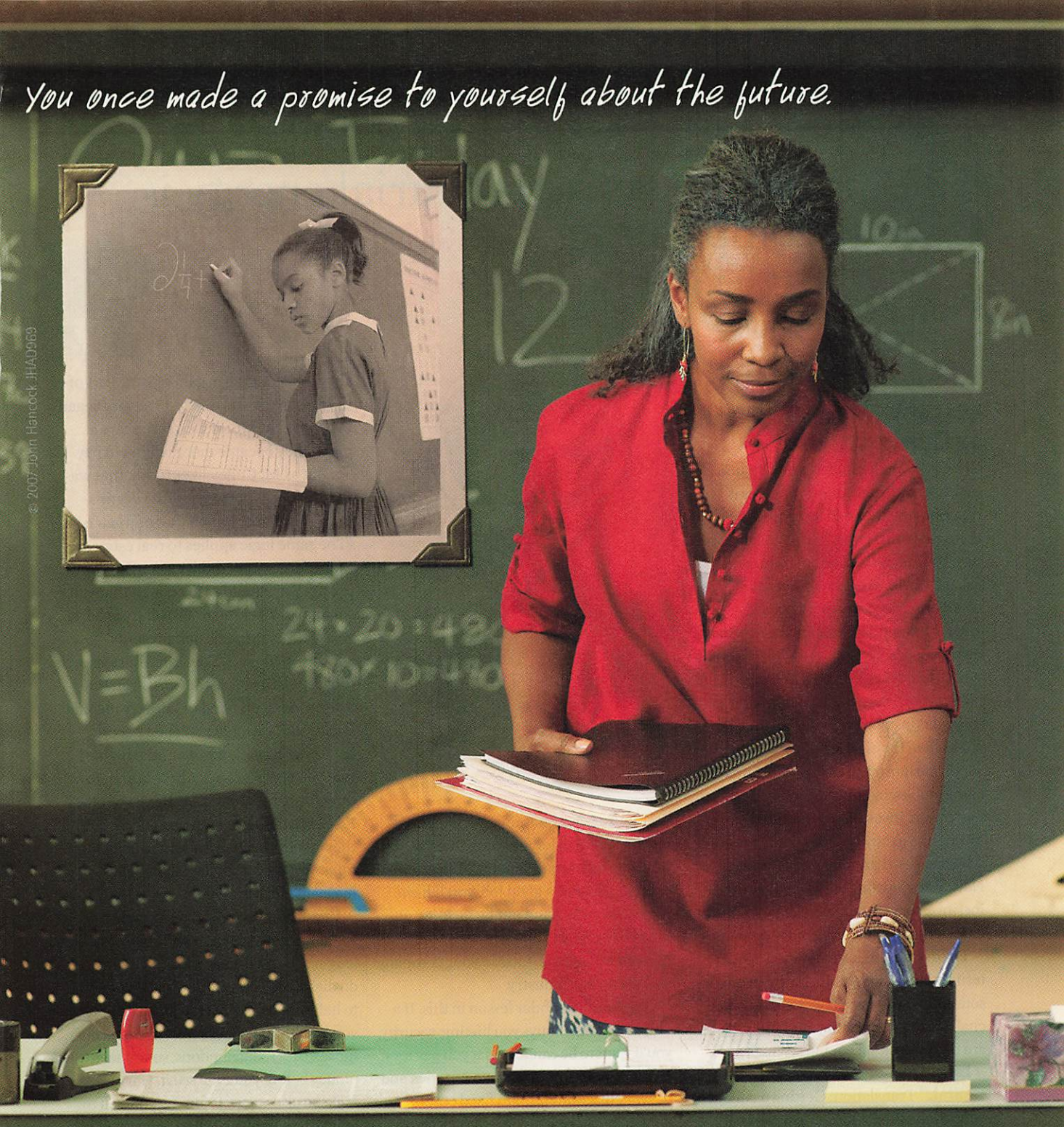
One obvious way to deal with these rising costs is to splurge less often on flat screens and the like. Easier said than done. "*Now* has emotional power, and *delay* does not," says economist David Laibson of Harvard. He's part of a research team that found evidence in MRI scans that the brain processes short-term and long-term rewards differently.

To compensate for this bias, societies develop "commitment devices," says economic historian Avner Offer, a professor at the University of Oxford. Marriage, for example, curbs promiscuity. But in an affluent world, we can't invent commitment devices fast enough to keep up with the flow of new temptations. "We end up in a state of heightened arousal and neglect long-term priorities," says Offer. So as prepared food has grown cheaper relative to income (a dozen croissants are just $5 at Costco's bakery), waistlines have widened.

Savings present a similar problem. Retirement, like college and health care, is getting more expensive, if only because life is longer. But with all this cool stuff to buy, how do you resist the urge to spend every nickel now? Here the problem isn't so much that commitment devices don't exist but that they're weakening. The traditional pension, says Offer, was a powerful tool: It saved on your behalf and generally didn't give you any way to touch that money until you retired. But as companies attack fixed costs, those plans are being replaced by 401(k)s, which not only are voluntary but offer lots of ways to cash out. The home mortgage is another commitment device, says Laibson. Through the simple act of paying off the loan over time you build equity that can turn into a nest egg. The financial innovations of the Great Moderation, however, make it easy to turn that equity into pocket money.

> The zooming cost of health care has brought real improvement. But that doesn't make rising premiums any less stressful.

You once made a promise to yourself about the future.



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What You Really Want Is Commitment

The Great Moderation is a description of the past. No one knows whether it describes the future. If luck was a factor, then it's worth remembering that luck can turn bad. Terrorism, an environmental calamity, an energy shock—any of these could bring volatility roaring back.

Or the Great Moderation could be its own undoing. McCulley of Pimco points to what's known as Minsky's financial-instability hypothesis, which posits that stability begets instability. People take bigger risks when they feel safe. Prime example: subprime mortgages. First, Wall Street got comfortable charging low interest rates to borrowers. Investors who wanted more return had to buy up loans made to people who had less than rosy credit histories. Now that subprime borrowers are defaulting, investors are taking huge losses, and a credit crunch could trigger a recession.

Even if the Great Moderation keeps puttering along, though, the future presents some obvious—and a few not-so-obvious—challenges for you and your family. Here are three essential coping strategies:

→ **Invest (wisely) in your "human capital."** Translation: Getting a college education and a white-collar job is no longer enough. Alan Blinder, a former vice chairman of the Fed and a confirmed advocate of free trade, has been warning that up to 40 million American jobs could potentially move offshore. That's 40 times the number of service-sector jobs that have so far gone abroad. New jobs will be created, but many of the lost ones, Blinder predicts, will be in once "safe" industries like education and accounting, as communication technology makes it easier for companies to buy brainpower abroad. That means that even if you have a good job, you'll have to find ways to stand out by tackling new kinds of projects, taking graduate courses or just networking outside your company and even your industry.

But there's a subtler lesson in this: If a degree no longer buys you lifetime security, you'll want to be careful what you pay for it. Take a lesson from corporate America and be wary of assuming high fixed costs—namely, huge student loans. A loan for an undergraduate degree still makes sense, especially if you can keep the amount down by choosing a high-quality public university. And even a $100,000 debt is a reasonable trade-off for a medical degree. But $100,000 in the hole for a third-tier M.B.A.? Think hard about that one.

→ **Don't count on easy money.** Since the early 1980s, stocks have returned around 13% a year before inflation, way above the long-term gain of 10%. Part of the reason may be that as investors began to believe the world wasn't so scary a place, they became more willing to pay up. But as McCulley likes to say, that was the journey. Now we're at the destination. We can't count on that pop again. (The same logic applies to real estate.) Many forecasters think even 10% is optimistic. You should save enough that you can make do if returns tail off from here.

The Great Moderation presents another challenge. Low interest rates are terrific when you're the borrower. But a retiree living off bond or annuity income is essentially a lender. "When people have your money, you want the highest rate you can get," says Alicia Munnell, director of the Center for Retirement Research. Today's rates aren't bad, but they're nothing like the abnormally high rates of recent decades. That makes saving even more urgent.

→ **Commit yourself.** As long as the economy stays strong, it will keep challenging your self-control. MONEY doesn't do diet advice. But we know a few tricks to help you resist the urge to spend when you know you should save. First, max out those 401(k) contributions, so you save the money before you even see it. Harvard's Laibson also suggests forcing yourself to build home equity by choosing a fixed-rate mortgage with as short a term as you can comfortably stand. Consider carrying a debit card, not a credit card.

If you do all that and still find yourself in trouble, well, much as it will pain you, perhaps it's time to let that Costco membership lapse. **$**

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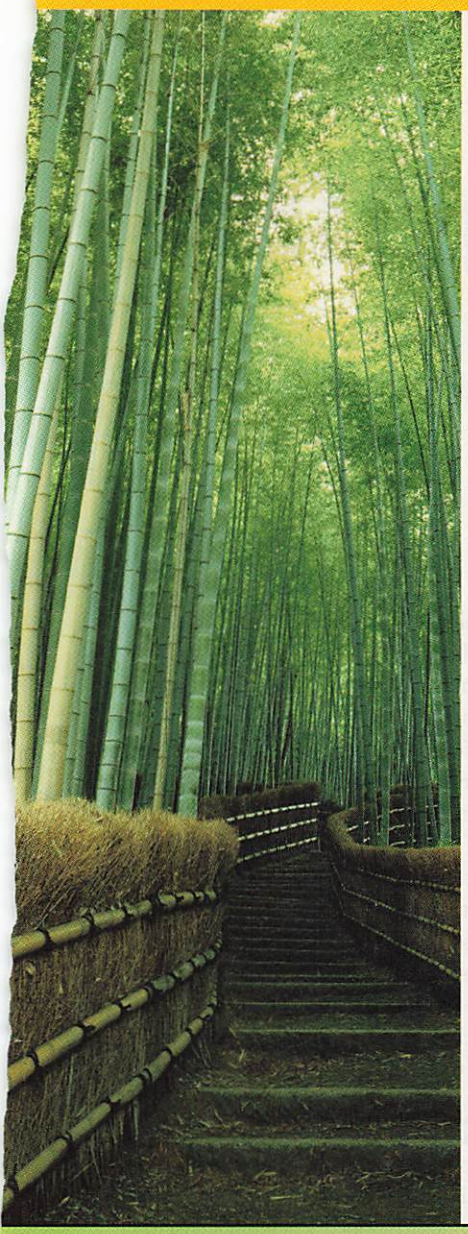

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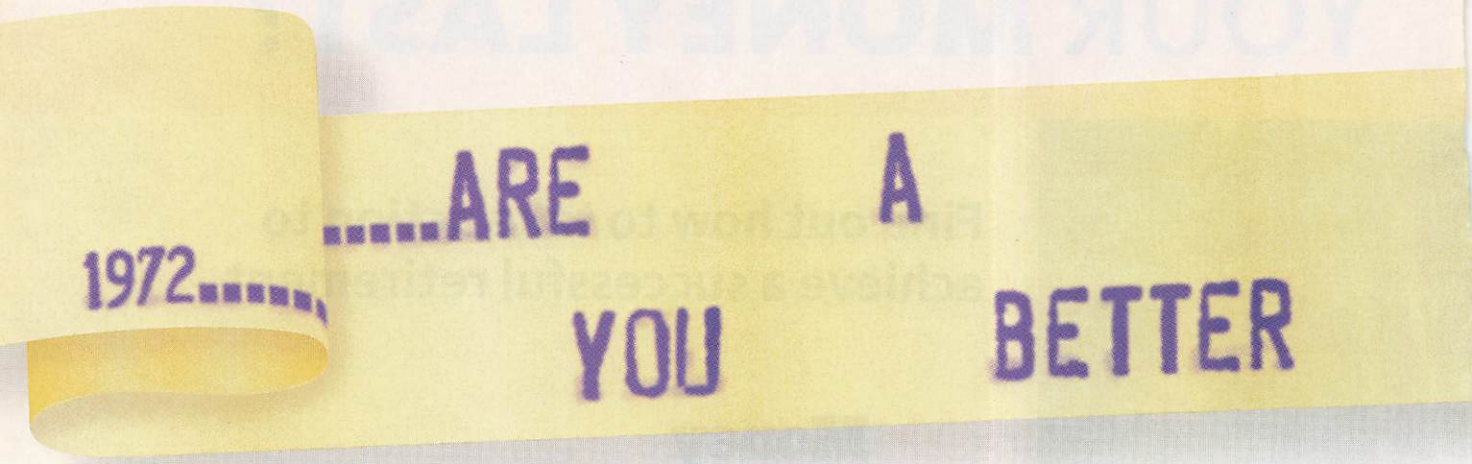


Over the past 35 years, investing has become simple, cheap and convenient.

It is Oct. 26, 1972. You turn on your transistor radio and the newscaster reads the closing-bell report from the New York Stock Exchange: The Dow Jones industrial average—led by stocks like Bethlehem Steel, International Harvester, Johns-Manville and Union Carbide—closed at 950.56 on an extremely heavy volume of 20.8 million shares.

The next morning you drive over to see George, your stockbroker. He recommends the Fidelity Trend Fund, which charges a sales commission, or load, of only 8.5%; most of the 400 or so load funds in existence charge 8.75%. Whenever you buy and sell a stock, George's commission will average about 1.3% of the transaction. But so would any other broker's.

In 1972 "the investing world was much easier to comprehend," says Joel Seligman, a financial historian and president of the University of Rochester. You knew your broker, and he sold stocks, not funds of hedge funds. Your bank took deposits, not mutual-fund commissions. Your insurance agent didn't come at you swinging a variable annuity like a meat ax. During a typical week in 1972, the total of all trades on the New York Stock Exchange was less than the trading volume of Microsoft shares *on a typical day* in 2007.

But the investing world of 1972 was also low in choice, high in cost and short on convenience and information. Nasdaq and money-market funds were less than a year old. There was no such thing as a discount broker, an index fund or a municipal bond fund, not to mention an IRA or a 401(k).

If you wanted a no-load fund, "first you had to find it," recalls fund expert Michael Lipper of Lipper Advisory Services. That meant watching for an ad, making a toll call, waiting for the prospectus, then mailing in the check—a process that could take weeks. And 7% of all stock trades in 1972 "failed to deliver," meaning that the paper certificates for the shares did not change hands within five days, potentially voiding the transaction. To check on your investments, you waited for tomorrow's newspaper, or next week's—or the maiden issue of MONEY that October, which many charter subscribers signed up for as the only convenient way to track their mutual funds.

2007: A Simpler Time

Fast-forward to 2007. Your stockbroker and your banker are a swirl of electrons. Adjusted for inflation, the average commission on a retail stock trade comes to about 3% of what it cost in 1972. You can choose from among more than 8,000 mutual funds and over 500 exchange-traded funds, or ETFs. You can buy a stock without getting out of your pajamas, and you've never had a trade fail to deliver. And you can watch the prices of your stocks change in real time from your office computer or your iPhone.

ILLUSTRATION BY **JON VALK**

Now it's a snap to build your wealth—or destroy it. by Jason Zweig

Less cost, more choice and greater convenience: Investing has never been simpler. The birth of the index fund in 1976 enabled anybody with a couple thousand dollars to own every major U.S. stock for less than 0.2% in annual expenses. Critics scoffed when Vanguard rolled out the first index fund—"The name of the game is to be the best," said Fidelity chairman Ned Johnson, "and I can't conceive of investment managers not even trying to do better than average"—but year in and year out, indexing has beaten roughly three-quarters of all funds. The investor who minimizes costs maximizes returns. Period.

More recently, indexing has spread to other markets—bonds, foreign stocks, real estate—so you can minimize your costs and maximize your opportunities for profit by covering every base. Meanwhile, the electronic ease of dollar-cost averaging (automatically routing a fixed amount from your bank to your index funds once a month, every month) means you can be a committed investor without ever lifting a finger, second-guessing yourself or timing the market. Combine the two strategies of indexing and dollar-cost averaging and you can hold the entire planet in a single portfolio on permanent autopilot. Nothing could be simpler.

> COMBINE THE STRATEGIES OF INDEXING AND DOLLAR-COST AVERAGING AND YOU CAN HOLD THE ENTIRE PLANET IN A SINGLE PORTFOLIO ON PERMANENT AUTOPILOT.

One thing, however, hasn't changed over the past 35 years: human nature. In 1972, Benjamin Graham was finishing the revise of his seminal work, *The Intelligent Investor*, in which he reminded readers that "the investor's chief obstacle—indeed, his worst enemy—is likely to be himself." Then, as now, investors got in trouble by acting on impulse: either getting carried away by greed or being paralyzed by fear. And solutions like indexing have always seemed a little unsatisfying. You want investing to be more complex so you can feel special when you figure it out. And Wall Street wants it to be more complex so it can make more money off your attempts to figure it out.

Thus in the first seven months of 2007, more than 130 ETFs were created to invest in commodities, foreign currencies and single-industry sectors. You can bet on the Swedish krona, buy a basket of carbon-emissions trading credits or attempt to gain twice as much as mid-size stocks lose when they go down. There's now a fund for every conceivable need—and for plenty of inconceivable needs too.

Three Rules to Invest By

So how do you put all the innovations of the past 35 years to the best use for you, not Wall Street? Follow these rules:

▷ **If there's a cheap way and an expensive way to solve an investing problem, stick with the cheap one.** The typical hedge fund gouges clients but produces mediocre returns. As for mutual funds, a recent study found that each 1% increase in annual expenses reduces performance by 1.6%; managers may be taking on more risk to overcome the drag of higher costs.

▷ **High returns and low risks don't come in the same package.** As Milton Friedman said, "There's no such thing as a free lunch." Just this summer, bank-loan and long-short funds became the latest "low risk, high return" products to flame out.

▷ **If you are presented with too many choices, you'll end up afraid to choose at all.** Psychologists have shown that having to pick among dozens of options not only makes it much harder for us to make up our minds, but it also fills us with regret. No matter what we choose, we worry that another choice must have been better. So don't bother scouring among thousands of mutual funds and packing your 401(k) and other accounts with 78 of them. Instead, own a handful of low-cost, diversified index funds, add to them every month and do nothing else.

The Bottom Line

Despite Wall Street's unrelenting efforts to complicate it, investing can be simple. But it isn't easy. In 2007 as in 1972, building wealth is very much like losing weight. Eat less, exercise more: That's simple! But it's not easy, because the world is teeming with chocolate cake and Cheetos. Likewise, buy a diversified basket of index funds and do nothing: That's simple! But it's not easy because the world is full of TV touts, cold-calling brokers and (temporarily) hot funds.

Realize that what's good about the difference between 1972 and 2007 is also what's bad. Lower cost is great if you trade rarely and wisely, but not if it tempts you into buying and selling constantly. More choice is great if you add a few selected good things to your portfolio in moderation, but not if you end up with an unplanned jumble of investments. More convenience is great if you use it to make your life easier, but not if you take time away from family and friends to update your stock portfolio. Lower cost, more choice and greater convenience are not means to an end, they *are* the end. Use them to achieve some other result, and you will fritter away the advantages the past 35 years have brought. You might as well be back in 1972, wearing plaid bell-bottoms and driving a Dodge Dart. **$**

Jason Zweig is the author of the new book Your Money and Your Brain. *E-mail him at* ***investor@moneymail.com.***

Gains and Pains

The advantages you have as an investor today are many. But it's all too easy to give them away.

● IT'S A GREAT TIME TO BE AN INVESTOR...

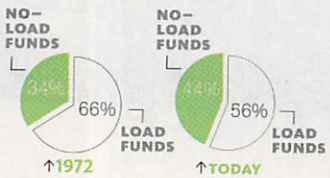
Mutual fund costs are down.

AVERAGE ANNUAL EXPENSE:

1972	EQUITY FUNDS (TODAY)	BOND FUNDS (TODAY)
1.2%	1.1%	0.7%

AVERAGE SALES LOAD IN 1972: 8.75%

AVERAGE SALES LOAD TODAY: 4.75%



A stunning variety of picks makes it easy to put together a diversified portfolio.

	↓1972			
	ETFs	MUTUAL FUNDS	CLOSED-END FUNDS	INTL. FUNDS
↑TODAY	539	9,733	652	1,063
	0	583	56	6

● ...BUT YOU CAN STILL HURT YOURSELF

Low costs may tempt you to time the market. Bad idea.

1982-2001	COMPOUND ANNUAL RETURN
→ All trading days	11.8%
→ Minus 10 best days	9.0%
→ Minus 30 best days	5.3%
→ Minus 50 best days	2.4%

It's easier than ever to chase what's hot. Another bad idea.

NET INFLOW INTO REAL ESTATE MUTUAL FUNDS 2006 →	$9.4 billion
2007 RETURN OF REAL ESTATE FUNDS[1] →	−8.5%[1]

NOTE: [1]As of Aug. 22. **SOURCES:** Investment Company Institute; *Journal of the Academy of Finance*; Morningstar.

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HOME TELEPHONE* WORK TELEPHONE

DO YOU ☐ OWN ☐ RENT HOUSING PAYMENT* (per month) $ LENGTH OF TIME AT PRESEI YEARS Y Y

E-MAIL ADDRESS (Providing your e-mail address is optional and allows us to send you important accour

Step 2 Please tell us about your household finc

EMPLOYER

OCCUPATION

EMPLOYER'S CITY/STATE/ZIP

TOTAL HOUSEHOLD INCOME*†

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PRINT NAME OF AUTHORIZED USER (FIRST, MIDDLE INITIAL, LAST NAME)

* This information is required to complete this application.

† Except for full-time students, you must have a minimum annual household income of $15,000 to be considered for

Step 4 Balance Transfer

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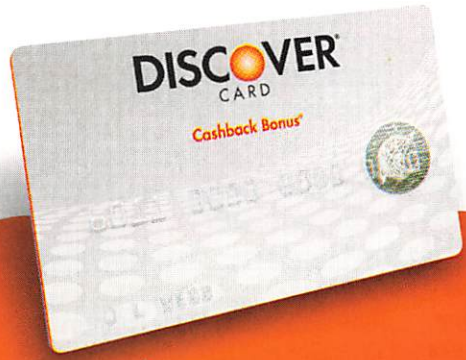

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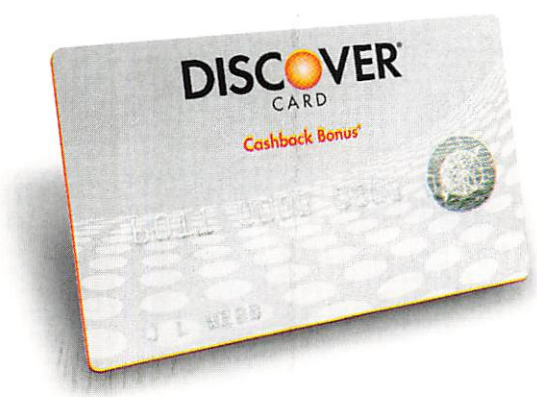

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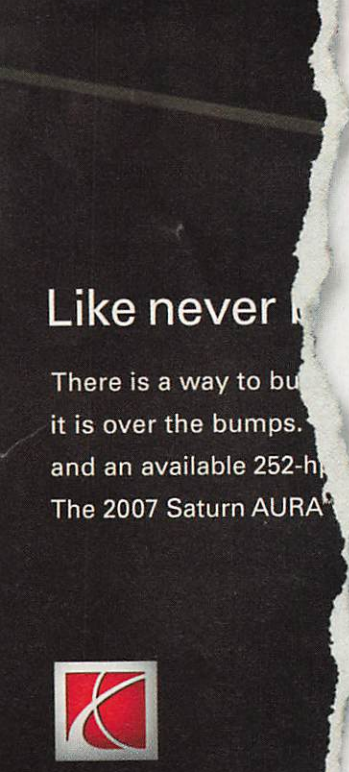

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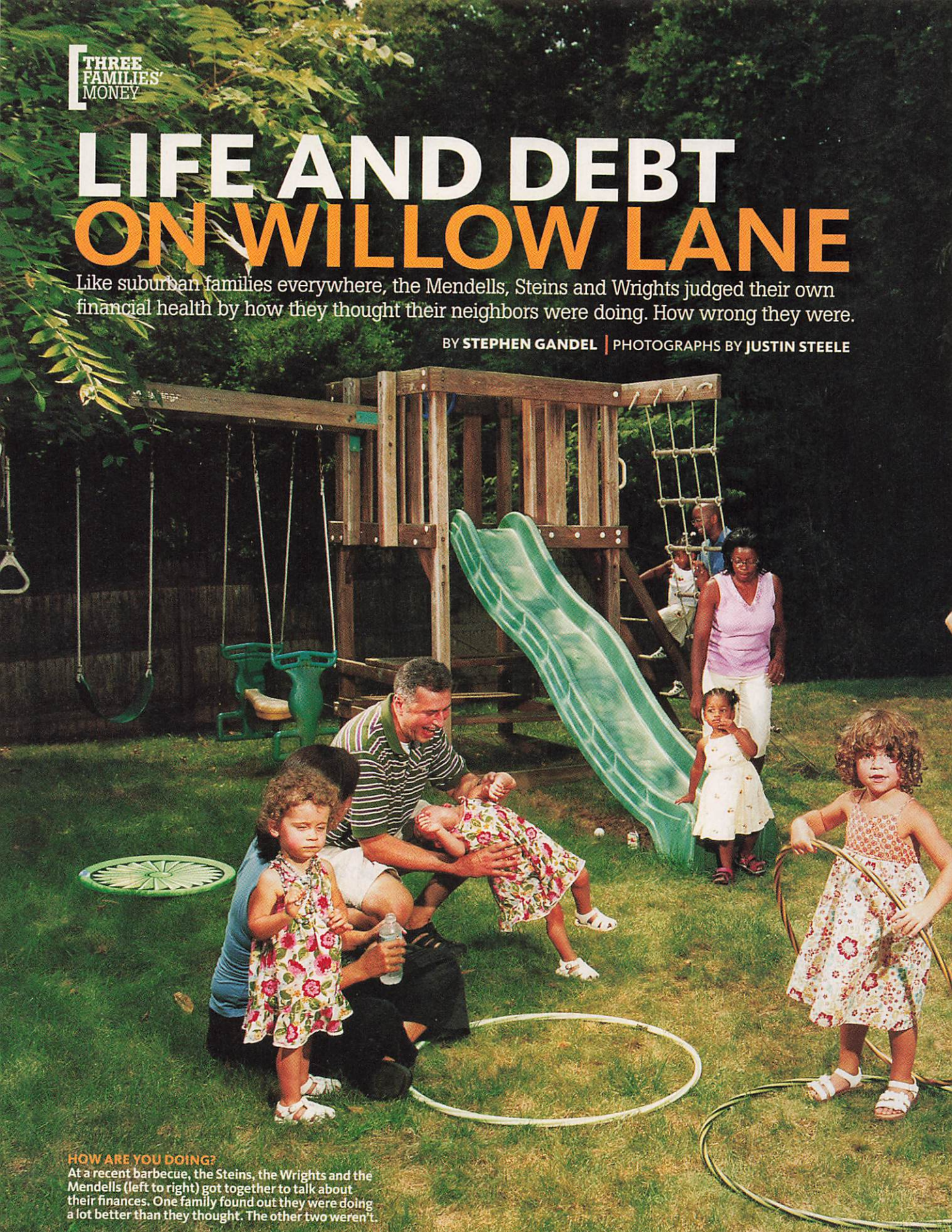
THREE FAMILIES' MONEY

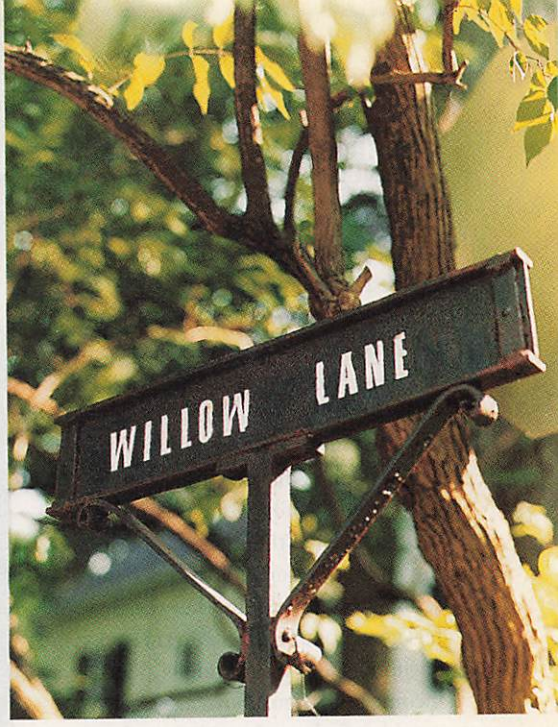
LIFE AND DEBT ON WILLOW LANE

Like suburban families everywhere, the Mendells, Steins and Wrights judged their own financial health by how they thought their neighbors were doing. How wrong they were.

BY **STEPHEN GANDEL** | PHOTOGRAPHS BY **JUSTIN STEELE**



HOW ARE YOU DOING?
At a recent barbecue, the Steins, the Wrights and the Mendells (left to right) got together to talk about their finances. One family found out they were doing a lot better than they thought. The other two weren't.



The 5:22 evening train from Philadelphia arrives in Wallingford, a leafy, peaceful suburb 11 miles west, at 5:48. Passengers depart holding briefcases and newspapers; some are met by cars, but most just walk home. And why not? Nearly every home in this town of 13,000 is within a 20-minute stroll down streets flanked by stone colonials, rolling lawns, spacious flower beds and weeping willows. It's a place where everyone seems to have made it, but not too much. There are few mansions or even McMansions in town. Most people drive mid-size sedans or SUVs. If there is a place left in America where people embrace being middle class, Wallingford is it.

Ernie Wright, 39, does the commute most weeknights. Two years ago he and his family moved from Philadelphia looking for just this kind of comfortably upper-middle-class community—a place where they would feel at home. And usually they do. That is, except for an occasional niggling feeling that most of their neighbors are actually a lot better off than they are.

Marni Baker Stein, who lives around the corner, takes the train home most nights too. Like Wright, she and her husband Stuart moved to Wallingford

a few months ago looking for a bigger house and a community of peers. In their old neighborhood, crammed into one of the smallest houses on the block, they felt poor. Now, living in a five-bedroom colonial on an acre of land, they feel a lot better about money, even though their actual finances haven't improved.

Dave and Emily Mendell, who live a few doors from the Wrights, moved to town two years ago for the good public schools, but there's another reason they feel good about their life in this neighborhood. Here the Mendells' family income puts them above average. "We wouldn't feel comfortable in a place where most people made more than us," says Dave Mendell.

Who would? Assessing how the neighbors are doing financially and what that means about how *we* are doing is practically a national pastime. The guessing game starts off as harmless pillow talk and community pool chatter, an outgrowth of natural curiosity. Just how much money must Susie and Bob *have* to be able to afford that new kitchen, three cars and a family safari? Then too, every homeowner has a vested interest in the financial well-being of his or her neighbors. Homeowner associations have long understood that nothing raises the value of a home more than an expanse of trim lawn and well-kept homes on either side.

But the finances of those around you affect more than just the perceived value of your property. They also, like it or not, help shape how much you spend and save and color your perceptions of your own financial well-being. Robert Frank, an economist at Cornell University and author of *Falling Behind*, calls the desire to match what the neighbors spend, remodeling project for remodeling project, lavish party for lavish party, "luxury fever." Not only can it prompt you to spend beyond your means, but it can also lead you to a false sense of how you are doing financially. Because when you see the guy down the block with so much more cool stuff than you have, you can't help but assume he is financially better off—even if the real truth is he just can't keep his credit card in his wallet. Without pulling back the veil of polite secrecy that neighbors maintain about their financial status, it's hard to tell.

This story helps pull back that veil on three families on a street called Willow Lane in an idyllic upper-middle-class American suburb. (Wallingford is so idyllic, in fact, that it was No. 9 this year in our annual rankings of the Best Places to Live.) The Wrights, the Steins and the Mendells are strikingly similar at first glance. They moved to town recently, are in their late thirties and early forties, grew up in middle-class families, graduated from good colleges, have professional jobs and are raising young kids. All three earn a comfortable living and borrowed about $300,000 to buy their homes.

In terms of their financial security, however, they are at quite different places. What's more, none of the families had an accurate picture of how they are doing, in part because they unconsciously measured themselves against their neighbors, and their assessment of those neighbors is wrong. The Mendells and the Steins, for instance, thought they were better off than they are, while the Wrights, who feel they are struggling to keep up in Wallingford, actually have saved the most. But the critical thing these families discovered is this: When you pull back the veil of your neighbors' finances, you see not only them but yourself more clearly.

THE STEINS

BATTLING DEBT

The Steins ran up big credit-card bills in their quest to have kids. Paying off that debt should be their highest financial priority. Then they can focus on beefing up savings for college and retirement.

THE BOTTOM LINE

+ INCOME	
Stuart and Marni's salaries	$132,000
TOTAL	**$132,000**
– OUTGO	
House (mortgage, taxes, insurance)	$32,000
Taxes	26,573
Child care	26,000
Groceries	9,600
Miscellaneous (gifts, clothes)	8,671
Credit-card payments	8,604
Car (insurance, gas, parking)	8,160
Restaurants, takeout food	7,344
Utilities	4,068
Life insurance	980
TOTAL	**$132,000**
+ ASSETS	
House	$468,000
Retirement savings	88,184
Savings account	17,386
TOTAL	**$573,570**
– LIABILITIES	
Mortgage	$342,500
Credit-card balances	39,035
TOTAL	**$381,535**
= NET WORTH	**$192,035**

In Debt and in Denial

Four months ago, Marni Baker Stein and Stuart Stein moved to Wallingford, paying $468,000 for a five-bedroom house on an acre of land on Rabbit Run, around the corner from Willow Lane. In their old neighborhood in Wayne, Pa., the Steins felt poor in comparison with other families and unequal to the task of keeping up with their neighbors' conspicuous consumption. Evidence that people were wealthier was everywhere. "Even the three-year-olds were dressed in designer clothes, all the way down to their shoes," says Stuart, 40, a sound technician. "You don't buy expensive shoes for a kid. Kids' shoes should come from Target."

The move to Wallingford has, almost magically, made them feel a whole lot better about their finances. That's because, the Steins say, a lot of people in the neighborhood seem to be at the same level as they are. Yes, there are still some houses that are bigger than theirs, but even those houses have Tauruses parked in the driveway. Says Marni, 40, an administrator at the College of General Studies at the University of Pennsylvania: "You don't hear about people going to Aspen for Thanksgiving here."

In reality, moving to Wallingford hasn't improved the Stein's finances. In fact, despite a seemingly comfortable combined income of $132,000, their cash flow is a little bit worse than before because they have a bigger mortgage and higher property taxes. All told, their house payments now run $32,000 a year, up from $22,000 in Wayne. Their other big expenditure: $26,000 a year for a full-time nanny for their three children, Eva, 3, and twins Neve and Lila, 2. Then there are all the myriad costs of a young and growing family, from diapers ($70 a month) to groceries ($800).

But the biggest drain on the Steins' finances is their lingering debt, run up mostly to pay for costly fertility procedures. In late 2001 after a year of trying and no baby, Marni learned the couple were going to need help to get pregnant. Health insurance covered only part of the treatment that followed: three failed attempts at artificial insemination, followed by in vitro fertilization. Thankfully, the IVF worked on the first attempt. After Eva was born, Marni become pregnant again the same way—this time with twins. Their total out-of-pocket maternity costs: $32,000.

Finally the Steins seemed on par with their neighbors, and they began to feel better about their finances. In fact, things were getting worse.

The Steins say they never questioned whether to pursue treatment, even though they didn't have the money to pay for it. They figured they could cover the bills with a credit card and pay off the balance over time. "We rationalized it by saying the cost is similar to buying a nice car," says Marni. "And kids are worth a lot more than a car, so it seemed cheap."

But if spending whatever it took to have kids didn't seem like much of a choice to the Steins, what they subsequently did about their debt was. They mostly ignored it, paying only the minimums and adding to the balance when big bills cropped up, like repairing the roof and their air conditioning. They now owe nearly $39,000 on five different cards, including nearly $1,200 on an American Express account with an interest rate of 30.21%. The minimums alone run the family $700 a month.

The result is that the Steins live mostly from paycheck to paycheck, saving very little. They have contributed just a few hundred dollars to retirement accounts in the past year (current value: $88,000) and have nothing saved for college.

Still, Marni's plan to solve her family's financial problems is not to cut spending and pay down the debt. Her idea involves going further into debt so that she and her husband can get additional training to help boost their income. Marni is working on a Ph.D. that will add $18,000 in student loans to the Steins' balance sheet by the time she finishes next year. Stuart plans to take a $5,000 management course. "I don't think watching our expenses will be enough," says Marni. "The only way we really could be better off is if we make more money."

Living the High Life

Dave and Emily Mendell do make more money than the Steins. Much more. Dave, 39, teaches fourth grade in Walling-

ford's elementary school. Emily, 38, is vice president of strategic affairs for the National Venture Capital Association. Together their annual income is $250,000. On Willow Lane, theirs is the biggest house on the block.

But for the Mendells, earning more money hasn't been the ticket to financial security their neighbors imagine it would be. Like the Steins, the Mendells are behind in saving for retirement, especially considering their high income and the fact that they'd like to stop working by the time they're 60. They've saved very little for college for sons Noah, 9, and Chase, 7.

True, like the Steins they're paying more for housing in Wallingford. Their five-bedroom colonial cost $100,000 more than the house they sold in nearby Broomall when they moved to Willow Lane two years ago. And their taxes have quintupled to $20,000 a year.

But what really diverts cash from their savings kitty is the cool stuff they like to buy. For instance, Dave, who loves to surf, recently bought an $800 custom-made, handcrafted board. He has three guitars, plus a fourth for Noah. For the kids they bought a trampoline and a swing set for the backyard. Emily, nearly a black belt, spends about $3,400 a year on karate lessons for herself and the boys. Dave prefers yoga classes ($1,200 a year). The Mendells would also like to finish their basement ($30,000), and Emily wants to trade in the family's minivan for a Mercedes M-Class ($40,000). Then there were the separate vacations Dave and Emily took to Costa Rica over the past year and the family trip to the Grand Canyon (total for travel: nearly $8,500).

That still leaves $600 a month unaccounted for. Emily, who says she has a problem saying no to her kids, admits some of it is spent on impulse purchases for the boys, who regularly return from trips to Target with a new toy. "When we're at the mall and they ask me to buy something, what do I say? 'We can't afford it'?" asks Emily. "We can."

But the price of the high life is, well, high: The Mendells contribute only $12,000 a year to their retirement and have just $176,000 saved in those accounts so far. That's less than a tenth of the $2 million they'd need to retire at 60, even taking into account Dave's teacher's pension. And the Mendells haven't put what savings they do have into the kind of growth investments that could help bail them out. In fact, nearly half of their retirement contributions now go into cash.

Just as the Steins' debt doesn't bother them, so the Mendells don't seem concerned about how little they've saved for retirement. They say their parents managed their retirement just fine and they were not as well off. And they don't think they're spoiling the kids; Noah and Chase have to do chores to earn their allowance. Recently Emily did get nervous about their lack of college savings and opened 529s for the boys, planning to deposit $500 a month in each account. But at that rate, they'll only save enough to cover about half the cost of the kids' college education. True, that's better than most families manage, but most families don't make $250,000 a year.

Still, the Mendells don't worry about whether they're spending away their future. "We question whether we are too nervous about spending," says Emily. "Should we be enjoying our life more?" Dave says he knows a lot of people in Wallingford who spend more than they do. Plenty of his surfing friends have houses at the shore, but he and Emily won't buy a second house because it's

THE MENDELLS

LIVING IT UP

To boost their long-term financial security, the Mendells need to cut back on their free spending and put more money away in their retirement accounts and college savings plans.

THE BOTTOM LINE

+ INCOME	
Combined salaries	$250,000
TOTAL	**$250,000**
– OUTGO	
Income taxes	$66,000
Mortgage, property taxes	45,882
Savings	30,000
Miscellaneous (gas, gifts, toys)	24,166
Credit card (travel, surfboard)	20,400
Groceries, dining out	19,156
Summer camp, swim club	7,850
Entertainment and dues	7,500
Loan payments (car, student)	6,648
Medical bills	6,300
Utilities	6,180
Karate/yoga classes	4,620
Insurance (life, home, auto)	4,098
Home improvements	1,200
TOTAL	**$250,000**
+ ASSETS	
House	$625,000
Retirement accounts	176,452
Brokerage, savings accounts	76,175
College savings	7,542
TOTAL	**$885,169**
– LIABILITIES	
Mortgage	$351,560
Student, car loans	$10,408
TOTAL	**$361,968**
= NET WORTH	**$523,201**

out of their budget. "We're not penny pinchers, but we can't spend without thinking about it either," says Dave. But he adds somewhat wistfully, "That would be a nice goal."

Stretching to Fit In

When Ernest and Miriam Wright traded in their downtown Philadelphia row house for a four-bedroom on Willow Lane 2½ years ago, they hoped to swap city life for a suburban idyll. No more urban anonymity and late-night howls from the drinkers at the bar next door. By and large, they found what they were looking for. Other families on the block welcomed the Wrights and invited them to join their regular get-togethers. Daughters Jillian, 4, and Lauren, 2, quickly found playmates. Their dead-end street is silent, even in the summer, by eight. And there was a bonus: The bigger house in the burbs actually cost less than their home in Philly (though they did take out a larger mortgage to pay for it), giving the Wrights a $100,000 cash cushion.

But the price of fitting into their new neighborhood has turned out to be a lot higher than the Wrights bargained for. With a bigger mortgage and higher property taxes, they're spending nearly $1,000 more a month on housing than they did in the city. Then there are the incidentals of life on Willow Lane. Landscaping cost $1,500. Remodeling the 20-year-old kitchen cost $25,000. They've upgraded to a Subaru Outback from a Volkswagen Jetta. And next year they'll spend $13,000 to send Jillian to kindergarten at a private school in the more exclusive part of town—even though the town's highly rated public schools are a major draw for Wallingford.

Miriam lays out twice as much on her daughter's clothing since moving: "All the other girls are dressed that way, so I spend more."

Jillian attends preschool there now. And being in a school with freer-spending families has already influenced the Wrights' habits. Miriam says she lays out nearly twice as much on Jillian's clothing as she did before they moved, shopping at stores that she used to dismiss as too expensive. She says, "All the other girls are dressed that way, so I spend more."

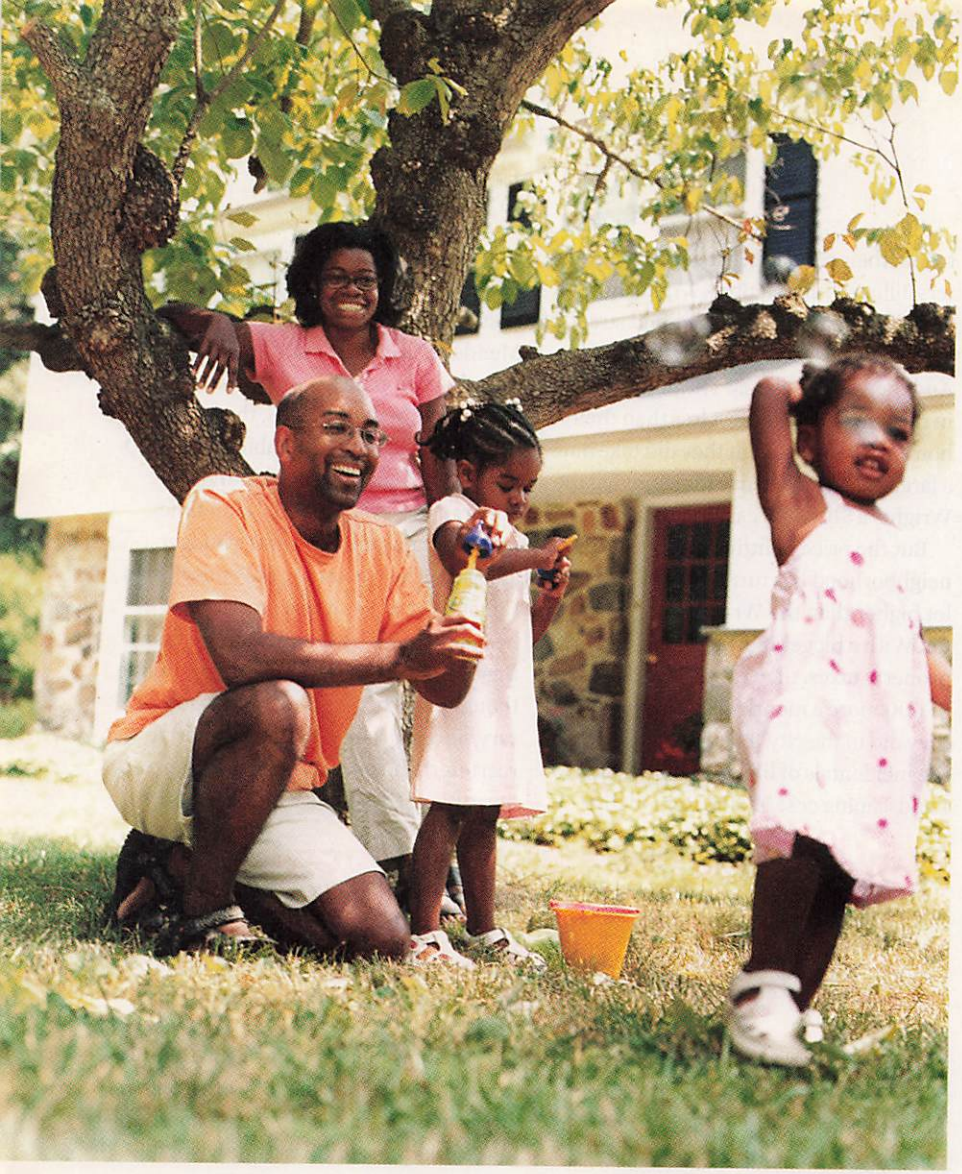
Earlier this year, a local boutique had a private shopping night for the mothers at Jillian's school. On the way there, Miriam, 39, promised herself she wouldn't buy anything. But after watching some of the women drop $600, she ended up spending $150 herself.

Still, by Willow Lane standards, the Wrights' spending isn't over the top. They're the only family on the block with one car, and haven't taken a real vacation in years. "We'd love to travel like the Mendells," says Miriam. "I don't know how they afford it."

Even without vacations, though, the Wrights, who make a combined $85,000 a year, are coming up a few hundred dollars short every month, sometimes nearly a thousand. Ernest is a budget analyst at the University of Pennsylvania (where Marni Stein also works), and he knew they'd be spending more than they earned to live in Wallingford. But he thought the shortfall would be temporary since Miriam, a former corporate recruiter who quit after the kids were born, planned to go back to work. But she's had problems finding a job that pays close to her former $65,000 salary (to bring in extra cash in the meantime she works part time as a supervisor for ticket collectors at Philadelphia Eagles games). Some interviewers tell her she is overqualified; others balk at the fact that she hasn't worked in three years.

The result: In two years, the Wrights have blown through $60,000 of the money they banked from the sale of the house in Philly ($40,000 is left) and have $7,000 in balances on their credit cards.

What they haven't done: They haven't stopped saving. "I don't want to be 80 years old and poor," says Ernie. He routinely puts 5% of his salary into his 403(b) plan, which earns the university's highest match. Miriam too has nearly $80,000 in retirement savings accounts from past jobs. And both plan on working until they're 70. All told, the family has just over $200,000 in retirement savings, which puts them well on track to meet their retirement goal—and when it comes to long-term financial security,



THE WRIGHTS

FALLING BEHIND

Since their move to Willow Lane, the Wrights have been spending more than they make. Their top priorities: finding a job for Miriam to bring in more money and paying off their credit-card debt.

THE BOTTOM LINE

+ INCOME	
Combined salaries	$85,000
Credit-card proceeds	4,297
TOTAL	**$89,297**
– OUTGO	
Income taxes	$28,175
Mortgage (taxes, insurance)	25,216
Groceries	7,680
Utilities	6,738
Miscellaneous (gifts, car repairs)	5,100
Preschool tuition	4,760
Retirement savings	3,900
Car (insurance, gas)	3,258
Credit-card payments	2,350
Restaurants, takeout food	1,020
Hairdresser, barber	800
Tennis	300
TOTAL	**$89,297**
+ ASSETS	
House	$447,000
Retirement accounts	200,946
Brokerage account	60,124
TOTAL	**$708,070**
– LIABILITIES	
Mortgage	$250,000
Credit cards	7,000
TOTAL	**$257,000**
= NET WORTH	**$451,070**

puts them ahead of both the Steins and the Mendells, despite their lower income.

On a recent weekend in August the three families met at a barbecue on Willow Lane. Over pulled pork and macaroni and cheese, they talked about their careers and their lives, and their similarities seemed more striking than their differences. Dave, the schoolteacher, and Marni, the college administrator, talked about education. Stuart and Miriam talked about their desire to earn more money. All the families admitted they make most of their financial decisions on the fly and cross their fingers that it will work out in the long run. But their greatest common bond, despite the differences in how much they make and what they spend money on, is that all three families have made choices that, unless corrected, jeopardize their financial futures.

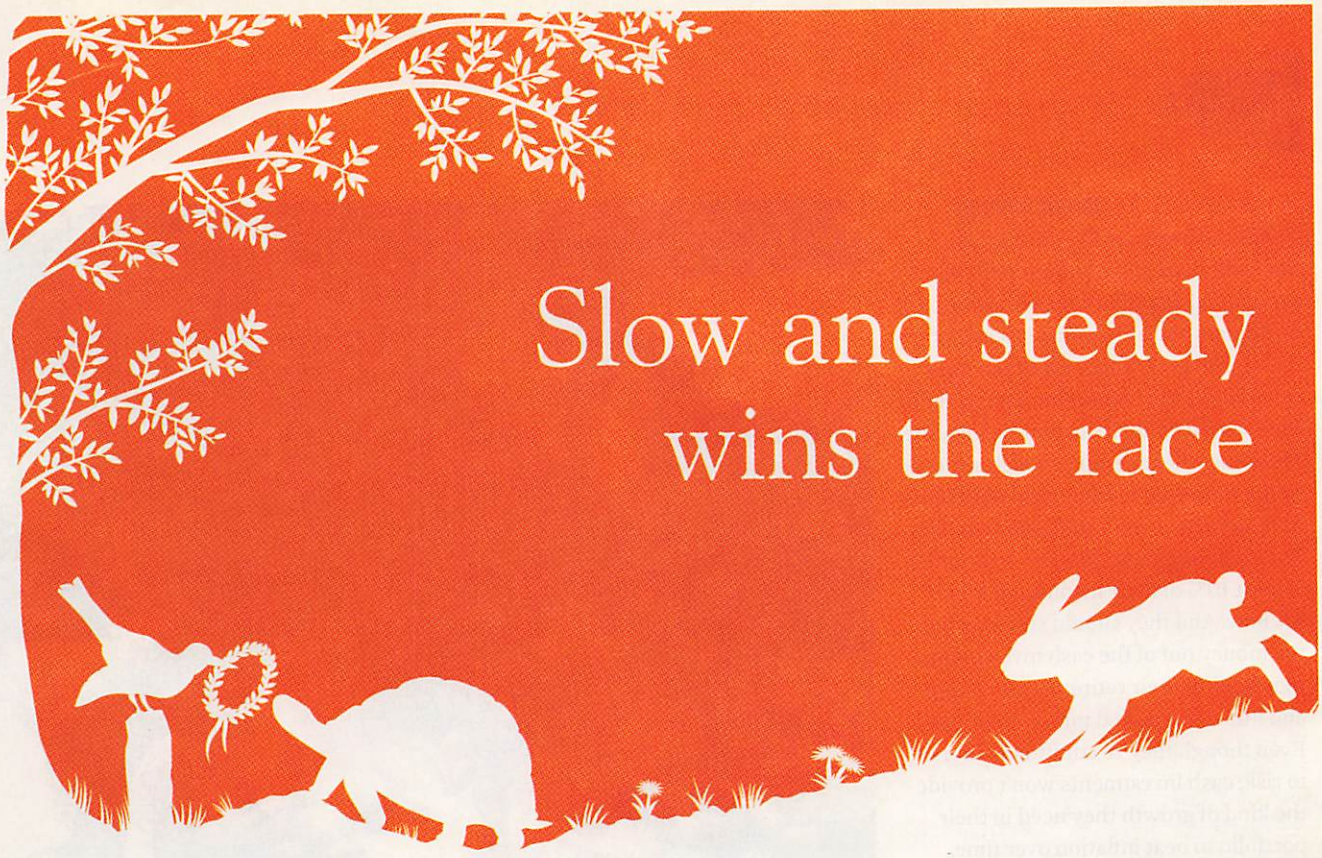
The Advice

To help the Steins, Mendells and Wrights get their finances on track, MONEY turned to financial planners Neil Kauffman of Kauffman & Drebing in Philadelphia and Chris Cordaro of Regent Atlantic Capital in Chatham, N.J., as well as career coach Nancy Collamer, who runs Jobsandmoms.com. Here are their recommendations for the families on Willow Lane.

>THE STEINS: Pay Off the Plastic

The planners united behind an urgent message for the Steins: Stop being so blasé about that $39,000 in credit-card debt and start paying it off. While Stuart likes having $17,000 in a savings account for emergencies, Cordaro says that money would be better used to help pay off their balances. "You're just giving money to the financial services industry," he says. Cordaro suggests the couple then take out a $30,000 home-equity line of credit, part of which should be used to erase the remaining card debt; at recent rates of 8.25%, that will lower their monthly interest payments by $300. The remainder of the credit line can serve as a temporary emergency fund until the Steins can pay off the HELOC and rebuild their bank account.

Next, Kauffman urges the couple to get serious about saving for retirement. Marni should contribute at least 5% of her salary to her 403(b) plan to get the full match her employer offers. But both planners suggest the Steins postpone saving for college until they've paid off their debt—especially since one of the perks of Marni's job is that the university will pay at least 40% of her kids' college costs.



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>THE MENDELLS: Boost Savings

Both Kauffman and Cordaro say the Mendells need to boost their retirement savings and *fast*. That means cutting back on dinners out and reining in some of their purchases. That's especially true since both Dave and Emily want to retire early. Based on their current savings, the Mendells will have only enough set aside by the time they're 60 to fund nine years of retirement, even with Dave's pension. Kauffman suggests that they sock away at least 10% of their income, up from 5% now. And they should shift most of the money out of the cash investments they have in their retirement accounts and into a diversified mix of stock funds. Even though they're admittedly averse to risk, cash investments won't provide the kind of growth they need in their portfolio to beat inflation over time. As for the kids' 529 college accounts, Cordaro recommends contributing an additional $520 a month.

>THE WRIGHTS: Get Back to Work

To close the gap between their income and their living expenses, Miriam needs to land a full-time job quickly, the planners say. To increase her chances of landing a suitable position, Collamer, the career coach, advises Miriam to update her résumé, emphasizing her skills rather than her recent work experience. "Don't shy away from being a mother," says Collamer. "Just don't put it at the top of a résumé or cover letter." Then expand the job search online to include industry-specific job boards, as well as mega-job-listing sites like Monster.com, and professional networking sites like LinkedIn. If interviewers ask about the three-year hiatus in her career, she should draw attention to her real-world experience during that time. For example, Miriam, who is looking for work as a professional recruiter, should point out how she was able to recruit volunteers for the nonprofits she worked with while she's been at home with the kids.

Lastly, Kauffman recommends that the Wrights give up the idea of sending their children to private school. "I don't know where the money would come from," the planner says. And given the quality of the schools in Wallingford, that expense at least seems entirely avoidable.

BACK AT THE BARBECUE, the three couples talk about what they've learned from the planners and how they plan to proceed. The Steins are going to use most of their savings to pay down credit-card debt (they're keeping $5,000 in the bank for emergencies). But they haven't sworn off borrowing. They plan to apply for a $42,000 home-equity loan—that's 40% more than the planners suggested—to wipe out their remaining credit-card balances and to pay for Stuart's career training and a new fence around their yard.

The Mendells have pledged to boost their retirement savings. "I thought we were on the right path," says Emily. "But we've got a lot more saving to do than I thought." They say that they are also committed to cutting back on their spending but haven't decided how. Meanwhile, Emily is still shopping for a Mercedes.

The Wrights, who had a sinking feeling about their finances before talking to the planners, say they were pleasantly surprised at the planners' assessment. "We're in better shape than we thought," says Ernest. Miriam is sending out her newly revamped résumé and has already landed one job interview.

In the end, all three families say that taking a closer look at their own finances, rather than using others as a gauge, has given them a clearer picture of where they stand when it comes to money. The Joneses they now want to live up to are not their next-door neighbors but rather their own expectations. Their financial security is up to them, they realize. And it's none of their neighbors' business. **$**

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COLLECTING

The Art of the Internet

How to surf your way to an enviable art collection

BY LISA HUNTER

IT'S OFFICIAL: THE ONCE SNOOTY ART WORLD has gone online. No longer do you have to be in the know about which gallery sells what in some far-off city. Instead, you can click your way to galleries, auction houses and artists all over the world to find works that interest you—and figure out a fair price too. And no, you don't need bags of dough. You can find plenty of good stuff, including works on paper and paintings by lesser-known artists, for under $5,000.

Of course, there are risks to buying anything online. You can't see the work in person to judge

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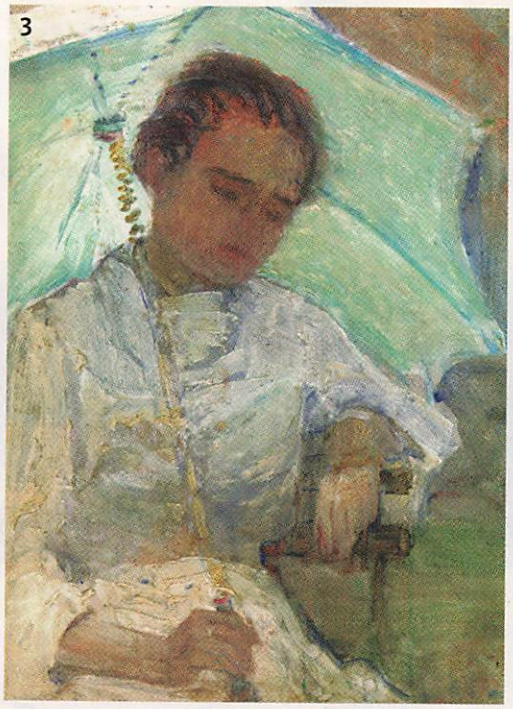
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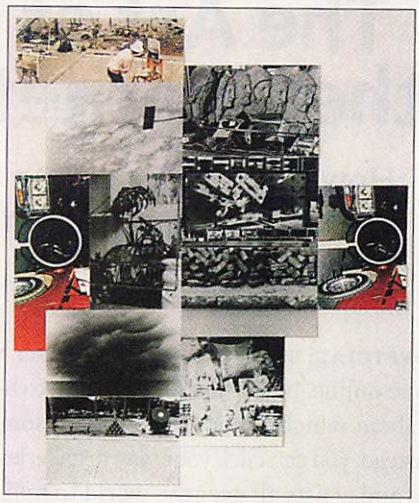
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1) **Kawanabe Kyosai woodblock print** ($1,600; carolynstaleyprints.com) 2) **Charles Hewitt woodcut print** ($800; metmuseum.org) 3) **Clarence Hinkle oil painting** ($4,800, already sold; bonhams.com) 4) **Robert Rauschenberg silkscreen with photocollage** ($5,000; moca.org) 5) **Cornell Capa limited-edition photograph** ($2,500 for series of five; icp.org)

condition and authenticity, for example. And some fraudulent sites exist. But those drawbacks pale in comparison with the benefits of the Web. It lets you discover new artists, vet sellers with professional associations and investigate authenticity and value—all without taking off your bunny slippers.

Start by doing some homework. If you're smitten with a famous contemporary artist—Jean-Michel Basquiat, say, or Jasper Johns—search for his name online. You may find that he made affordable limited-edition prints. You'll also learn which dealers sell the artist's work; those in small cities may charge less than those in New York City or San Francisco. Also consider searching the artist's auction sales records on Artnet, a hub of information about dealers, artists, pricing and more (artnet.com; $14.95 for a one-day pass).

Random clicking will turn up contemporary artists you've never heard of. To get a sense of whether an artist's work is valuable, look at the curriculum vitae posted on his or her site. Prizes, gallery representation, museum exhibitions and an M.F.A. from a top school are good signs.

Ready? Here are tips for dealing with the four main kinds of art sellers:

Galleries

Artnet can link you to scores of respected dealers who are happy to make a sale via e-mail. In your note, express your serious interest in the artist or his work. Mention that you've looked at the artist's other work online or read a review. Don't just say "How much for the big red one?" To a gallery owner, that sounds like a return waiting to happen.

If you're interested in buying famous (read: widely forged) artists such as Chagall, Dalí or Warhol, stick to galleries that belong to a vetted dealer's association, such as the International Fine Print Dealer's Association (printdealers.com), the Art Dealers Association of America (artdealers.org) or the Association of International Photography Art Dealers (aipad.com). The websites will tell you which members sell the kind of art you're looking for.

What you probably won't find on gallery websites are prices. Most tell you to contact the gallery. Don't be shy. Even if the price is immense, nobody at the gallery will be able to see you blush; you can just disappear into cyberspace. And you can often get a 5% to 10% discount by saying, "I'd love to buy this if you could do a little better on the price."

Auction Houses

Bonhams (bonhams.com), Christie's (christies.com), Sotheby's (sothebys.com) and dozens of others regularly sell art in all price ranges. Click on a site's Upcoming Auctions link, then click on Browse Catalogue for information on works for sale and how to make an absentee bid online. Christie's even offers

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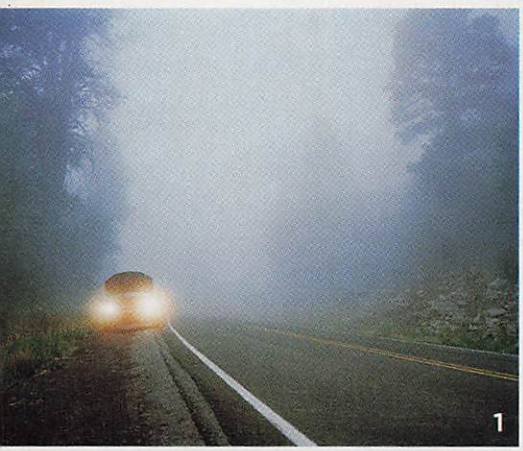
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real-time multimedia auctions so you can experience the excitement of the showroom from home.

If you're a new art buyer, stick to major auctioneers that vet the art. All sales are final, so be sure you really want the piece. Factor in the commission or "buyer's premium," which may be as much as 20% of the purchase price (check the catalogue). Generally, buyers owe sales or "use" tax on both the purchase price and the premium.

Artist Websites

Ambitious artists usually have their own websites, and many sell their work directly over the Internet. How do you find them? Start by looking at Saatchi Online (saatchi-gallery.co.uk), a site where artists can post their work for free. On the Main Menu Page, click on Saatchi Online or on Stuart, the open forum for art-student work. You'll find thousands of emerging international artists. The gallery doesn't get involved in transactions, but each listing has artist contact information, so you can make a deal on your own.

...and two more

1) **Amy Stein limited-edition photograph** ($2,500; paulkopeikingallery.com)
2) **Maria Spector oil painting** ($425; galleryartist.com)

Another way to find artists is through the blogosphere. Modern Art Notes (artsjournal.com/man), a popular, professionally written blog, has links to art blogs around the U.S. Click on the links and you'll soon be immersed in the art scene.

Museums

Several contemporary art museums, including Chicago's Museum of Contemporary Photography (mocp.org) and New York's New Museum of Contemporary Art (newmuseum.org), offer original, limited-edition artworks in their gift shops. You can browse and buy online. To find other museums' offerings, search online for "museum shop limited edition."

THE DETAILS

RETURNS "If the return policy isn't pro-buyer," says Paige West, founder of Mixed Greens Gallery in New York City, "don't bother." A legitimate gallery will take work back if there's a problem, such as damage the dealer didn't notice.

CONDITION If you're buying anything other than brand-new art, ask for a condition report. Avoid sellers who use the disclaimer "condition as pictured." It's tough to judge from a JPEG.

ADDITIONAL COSTS Ask up front about shipping costs, sales tax, buyer's premiums (for auctions), insurance (it's usually not expensive) and whether framing is included.

SIZE If the size isn't indicated on the seller's website, ask. Otherwise, the piece you expected to be the centerpiece of your living room may turn out to be three inches tall.

With those precautions in mind, you'll be on your way to building a real art collection. Your next task: Search home decorating sites so you can figure out the best way to display your new treasures. $

WHAT ABOUT EBAY?

Some reputable auction houses, such as Swann Auction Galleries, sell on eBay occasionally. But most sellers there are amateurs with no art expertise—so buyer beware. When an alleged Picasso turns out to be paint by numbers, getting your money back may be difficult. On the other hand, eBay can be a great place for new work sold directly by artists. To find it, click on the Art category on eBay's main page. The link Self-Representing Artists takes you to thousands of original artworks. These pieces probably won't be great investments, but they might look fantastic hanging over your sofa.

THE FINE PRINT ON PRINTS

"Some 'prints' for sale online are actually poster reproductions," says Diane Villani, president of the International Fine Print Dealers Association. A lithograph is a type of handmade print, but an "offset lithograph" is a machine-printed copy (and less valuable). The other tricky term is giclée (pronounced *zhee*-clay), a high-tech form of ink-jet printing. If an artist creates a work digitally and prints it as a giclée (like the Terry Gilecki work pictured above), it's original art. But if someone else scans an artist's painting to make the giclée, that's a copy. Regardless of the printing technique, if you see the words "by permission of" at the bottom, it's a reproduction. Artists don't need permission to print their own work.

Hands of Time Art Gallery (Terry Gilecki)

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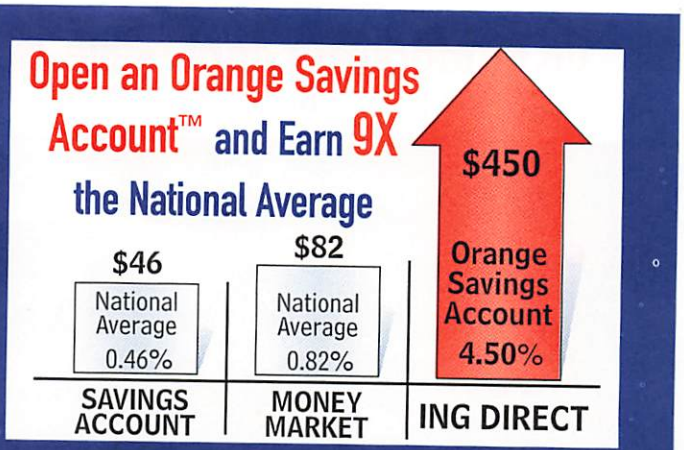

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If you're a caffeine junkie, a home espresso machine can save you a latte money

BY CHARLES PASSY

It's hard to say what provides more of a morning jolt: that potent cup of espresso that's part of your a.m. ritual or the price you pay for your caffeinated indulgence. But at a time when the cost of that cup has been steadily rising—Starbucks hiked its prices twice in the past year—there is a solution of sorts. Brew your own with a home espresso machine.

You'll pay for the privilege up front, of course. Depending on the style of espresso maker (more on that in a moment), you could spend from $100 to well above $1,000. And you'll have to learn the art of the barista. But you should be able to brew up some savings over time. (If you buy the most expensive machine we tested, the $600 KitchenAid, you'll come out ahead of a $3-a-cup daily habit in a year, including the cost of $10-a-pound java.) More important, perhaps, is the fact that you'll be able to turn out a cup made to your specifications.

To understand your options, you first must understand espresso and how it's different from ordinary joe. The latter is produced when hot water is mixed with ground beans, whether in an old-fashioned percolator or in a modern drip

WHAT TO LOOK FOR

Breville's Die-Cast Espresso Machine is our top choice. Here's why:

- It delivers a flavorful cup of espresso and **creates a nice foam.**
- It's **easy to use.**
- **It won't take over your kitchen**—in fact, it takes up about the same amount of counter space as a blender.

PHOTOGRAPH BY ZACHARY ZAVISLAK

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machine. But to make espresso, you force water through tightly packed, finely ground—almost powdered—coffee very fast, resulting in a concentrated, viscous beverage that can be drunk straight or made into a latte or cappuccino.

Most espresso machines use a pump to push water through the grounds. Coffee purists tend to prefer machines that let users do this part themselves, usually via a spring-piston lever. For those willing to give up control, there are super-automatic machines that grind, pump and brew at the push of a button. These save time but cost more—selling for as much as $3,500. You'll also give up a fair share of counter space—about half the amount that a full-size microwave takes up. That leaves semiautomatic machines as the logical choice for many home users. These are generally priced more economically—$250 to $1,500—and they do the laborious pumping for you, though you'll usually still have to handle the grinding, the packing and the timing of the brew process.

Not all semiautomatics create a quality cup: One we tested consistently delivered thin espresso. So you should ask to try a sample at the store. Another consideration is ease of cleaning. No matter how good the brew tastes, if the machine is a pain to maintain, you'll be back at Starbucks in no time. Cappuccino fans should also look at the steam wand, which is used to froth the milk; some are simpler to maneuver than others. If cappuccino is that important to you, it may pay to go for a dual-boiler machine that allows you to brew and steam simultaneously, saving you about a minute a cup. Expect to pay $600-plus.

If all this sounds more intimidating than ordering a double-tall 2% half-caf latte at your favorite café, keep in mind a final benefit of buying an espresso machine: Refills are on the house. **$**

How we did it We picked five semiautomatic espresso makers priced under $750 and made several cups with each. (We haven't slept since.)

Brand	Ease of Use	Taster's Choice	Ease of Cleaning	The Final Buzz
Breville Die-Cast Espresso Machine (800ESXL) **$400**	Logical controls and a steam wand that swivels make this Breville model fairly **effortless to use.** A plus: It has clearance for larger mugs. EASY — HARD	Delivers a reasonably smooth-tasting espresso, with **plenty of that prized crema** (the foam).	**Key parts slide easily** in and out. But the used grounds tend to be wetter than on other machines, adding to potential mess. EASY — HARD	Our top pick: A **solid, smartly designed** machine delivering good quality with little hassle. **A-**
Gaggia Classic **$500**	Generally easy to operate, except that it **lacks the calibrated water tank** of some of the other semiautomatics we tried. EASY — HARD	**Near perfect,** with a robust, rich flavor and that subtly viscous consistency that distinguishes espresso from plain ol' joe.	Removing the drip tray **takes an extra step** because there's a part in the way. EASY — HARD	A good machine, but you can get nearly as rich espresso for less with the Breville. **B+**
Capresso Ultima **$300**	Very user-friendly. You'll **love the built-in mechanism that tamps the grounds** and then discards them. EASY — HARD	**Not quite as rich** as what other machines produced, with only a modest amount of crema.	**A breeze.** Because the machine transfers the used grounds to a container, there's no filter to clean. EASY — HARD	A **less pricey alternative** to the Breville. But the exterior is made of plastic, which can be kind of a visual turn-off. **B**
Krups XP4050 **$249**	The smallest of our tested models, it can be programmed to brew an exact amount. But a part in our unit's **steam wand broke** early on. EASY — HARD	Balanced in body and taste but **lacking the fullness of flavor** you'll find from the Gaggia.	**It has space to store accessories,** which helps with post-cleanup organization. EASY — HARD	The part breaking so quickly was a disappointment, but **customer service *was* quick to replace it.** **C**
KitchenAid Pro Line Series Espresso Machine (KPES100) **$600**	The only dual boiler we tested, it certainly saved time. And it had a nice swiveling steam wand. But the **water tank is difficult to set in place.** EASY — HARD	Taste wasn't bad, but **texture was on the thin side.** Missing: that hint of syrupy consistency.	Because this is a large machine, there's **more to wipe down.** EASY — HARD	Not only did the taste not match up to other models, but the machine also was **more expensive and considerably bulkier.** **C-**

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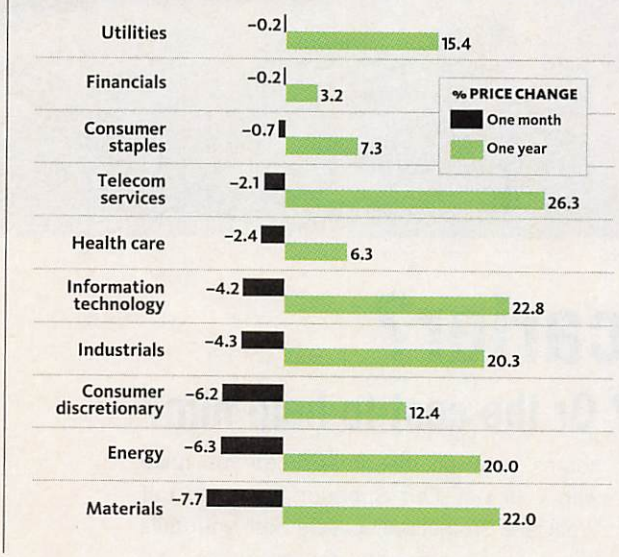
Stocks

Stocks Slide as Credit Problems Continue

As worries about the housing and credit markets deepened in August, markets worldwide suffered. All S&P sectors were in the red for the four weeks ended Aug. 23, although **Financials** lost just 0.2% thanks to the Fed's cut to the discount rate. **Materials** took the biggest hit, with a 7.7% drop, as investors pulled out of commodities on the belief that demand for metals and other materials will decline as home building cools.

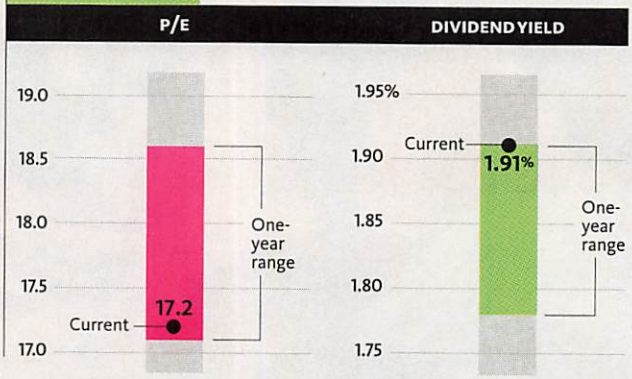
S&P 500 SECTOR AVERAGES



BENCHMARKS

INDEX	LEVEL	TOTAL RETURN ONE MONTH	TOTAL RETURN ONE YEAR	TOTAL RETURN THREE YEARS[1]
S&P 500	1462.5	-1.2%	15.0%	11.9%
Nasdaq[2]	2541.7	-2.2	18.9	11.1
Russell 2000	788.3	-0.3	14.2	14.3
Morgan Stanley EAFE	2145.0	-3.4	17.5	21.5
Dow Jones industrial average	13,235.9	-1.5	19.8	11.7
Lehman Bros. aggregate bond	1226.6	0.8	5.3	3.7

S&P 500 RATIOS



HIGHEST-YIELDING DOW STOCKS

STOCK (TICKER)	PRICE	DIVIDEND YIELD
Pfizer (PFE)	$24.62	4.7%
Citigroup (C)	48.35	4.5
Altria Group (MO)	68.63	4.0
Verizon Communications (VZ)	42.15	3.8
AT&T (T)	40.10	3.5
J.P. Morgan Chase (JPM)	45.67	3.3
General Motors (GM)	30.75	3.3
DuPont (DD)	48.94	3.0
Merck (MRK)	50.50	3.0
General Electric (GE)	39.12	2.9

TOP-PERFORMING STOCKS

RANK	STOCK (TICKER)	PRICE	TOTAL RETURN ONE MONTH	TOTAL RETURN ONE YEAR
1	Protalix BioTherapeutics (PLX)	$42.88	139.6%	5.9%
2	InterOil (IOC)	33.80	60.9	146.5
3	First Charter (FCTR)	29.18	60.0	28.6
4	Pharmion (PHRM)	38.26	55.4	128.4
5	Blue Coat Systems (BCSI)	78.07	46.4	366.4
6	USB Holding (UBH)	23.59	44.1	11.6
7	Rare Hospitality Intl. (RARE)	37.68	38.4	37.0
8	Dade Behring Holdings (DADE)	75.09	34.3	94.6
9	HMS Holdings (HMSY)	24.02	33.9	89.6
10	FTI Consulting (FCN)	51.25	31.8	137.3

MOST WIDELY HELD STOCKS

RANK	STOCK (TICKER)	PRICE	TOTAL RETURN ONE MONTH	TOTAL RETURN ONE YEAR
1	General Electric (GE)	$39.12	-2.7%	19.0%
2	Microsoft (MSFT)	28.30	-7.8	11.8
3	Pfizer (PFE)	24.62	0.1	-5.2
4	ExxonMobil (XOM)	83.75	-7.4	22.2
5	Johnson & Johnson (JNJ)	62.11	1.0	-0.4
6	Cisco Systems (CSCO)	30.27	1.7	43.8
7	Verizon Communications (VZ)	42.15	-2.2	32.1
8	Intel (INTC)	24.23	-0.8	34.2
9	AT&T (T)	40.10	1.1	36.1
10	Citigroup (C)	48.35	-0.9	3.9

NOTES AND SOURCES: Unless otherwise noted, data as of Aug. 23 from Lipper, New York; 877-955-4733. Index levels from Bloomberg. Bond index data from Lehman Brothers. Stock data from Thomson/Baseline. Monthly S&P 500 ratios from Standard & Poor's. Ratios are based on previous four quarters of earnings. Top-Performing Stocks limited to companies with market capitalization of at least $500 million. Most Widely Held Stocks ranked by largest accounts at Merrill Lynch. [1]Annualized. [2]Price change only.

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Mailbox Size	2 GB	Unlimited	10 MB
Search Engine Submission	✓	✓	Extra charge applies
Website Builder	12 Pages	✓	Freeware
Photo Gallery	✓	✓	✓
RSS Feed Creator	✓	–	$4.99/month
Ad-free Blog	✓	✓	Freeware
90-Day Money Back Guarantee	✓	–	–
Support	24/7 Toll-free Phone, E-mail	24/7 Toll-free Phone, E-mail	24/7 Phone, E-mail
Price Per Month	$4.99	$11.95	$6.99
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TOTAL/YEAR	$44.91	$137.42	$75.48

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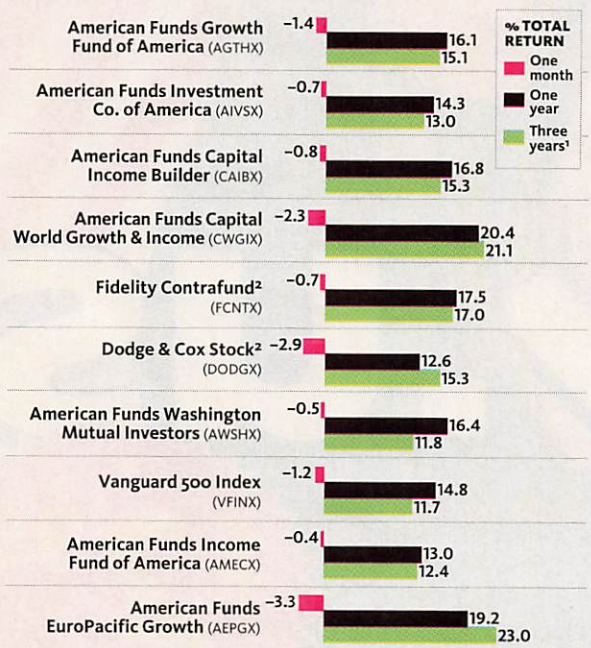
Mutual Funds

Market Woes Send Stock Funds Lower

Volatile markets left stock funds reeling for the month ended Aug. 23. Overseas funds performed worst, down 4.3% on average. Bond funds fared better, led by high-yield corporate funds, up 0.9%. **American Funds Income Fund of America,** down just 0.4%, was best among the big funds.

THE 10 BIGGEST STOCK FUNDS



FUND AVERAGES

CATEGORY	TOTAL RETURN ONE MONTH	ONE YEAR	THREE YEARS¹
Stock Funds			
U.S. diversified equity	-1.7%	14.9%	12.4%
Large-cap	-1.4	14.5	10.8
Midcap	-2.2	18.6	15.2
Small-cap	-1.6	15.9	13.9
Balanced	-0.9	10.7	8.9
Overseas	-4.3	21.3	23.6
Bond Funds			
U.S. government	0.7	4.0	2.5
Investment-grade corporate	0.3	4.0	2.9
High-yield corporate	0.9	5.9	6.2
Tax-exempt	-1.8	0.6	2.6

TOP-PERFORMING FUNDS

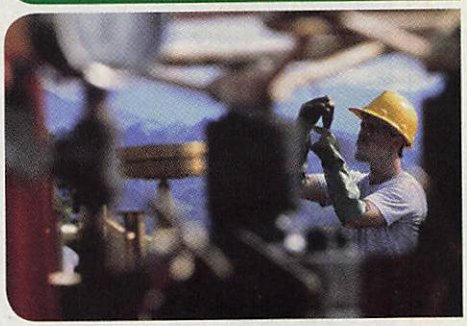
CATEGORY	TOTAL RETURN ONE YEAR	THREE YEARS¹	EXPENSES (AS % OF ASSETS)
Large-Cap Stocks			
ProFunds UltraDow 30 (UDPIX)	32.1%	15.7%	1.49
Rydex Dow 2x Strategy (RYCYX)	30.1	14.4	2.45
Fidelity Advisor Growth Opportunities (FAGOX)	27.3	11.5	1.12
Janus Adviser Forty (JDCAX)	27.1	N.A.	0.92
Janus Research (JAMRX)	26.8	15.1	0.97
Midcap			
American Century Giftrust (TWGTX)	39.4	27.0	1.00
American Century Heritage (TWHIX)	39.4	26.9	1.00
Eaton Vance Multi-Cap Growth (EVGFX)	37.0	20.3	1.26
Eaton Vance Tax-Mgd. Multi-Cap Gr. (EACPX)	36.1	19.5	1.49
Direxion Mid Cap Bull 2.5x (DXMLX)	35.6	N.A.	1.75
Small-Cap			
Undiscovered Managers Behavioral Gr. (UBRRX)	36.8	17.2	1.61
Lord Abbett Developing Growth (LAGWX)	35.9	21.5	1.16
Pacific Advisors Small Cap (PASMX)	34.0	26.1	2.59
Professionally Managed Perkins Disc. (PDFDX)	33.8	19.3	2.50
Brazos Small Cap (BSMAX)	33.4	19.4	1.65
Balanced			
Eaton Vance Balanced (EVIFX)	19.0	13.4	1.18
Valley Forge (VAFGX)	16.0	10.1	1.27
John Hancock Balanced (SVBAX)	16.0	15.0	1.28
Fidelity Advisor Freedom 2030 (FAFEX)	15.2	12.4	0.25
Lord Abbett America's Value (LAMAX)	14.8	11.1	1.33
International			
Janus Overseas (JAOSX)	36.0	37.8	0.91
Allianz NFJ International Value (AFJAX)	35.0	N.A.	1.49
ING International SmallCap (NTKLX)	34.0	29.7	1.66
Janus Adviser International Growth (JIGCX)	33.9	36.2	1.74
Oppenheimer Intl. Small Company (OSMAX)	33.2	35.9	1.20
Emerging Markets			
ProFunds UltraEmerging Markets (UUPIX)	73.4	N.A.	1.51
Direxion Emerging Markets Bull 2x (DXELX)	61.7	N.A.	1.55
Nationwide Emerging Markets (GEGAX)	47.8	37.3	1.65
Goldman Sachs BRIC (GBRAX)	46.4	N.A.	1.97
Quantitative Emerging Markets (QFFOX)	45.2	38.5	1.67
U.S. Government Bonds			
Direxion 10 Year Note Bull 2.5x (DXKLX)	6.8	N.A.	1.75
Putnam American Government Income (PAGVX)	6.1	3.1	1.00
Sit US Government Securities (SNGVX)	5.7	3.7	0.80
Pacific Advisors Government Securities (PADGX)	5.4	2.9	2.50
Sentinel Government Securities (SEGSX)	5.4	3.6	0.98
Investment-Grade Corporate			
HSBC Investor Intm.-Duration Fixed Inc. (HLMBX)	8.2	3.7	1.56
Loomis Sayles Bond (LSBRX)	7.9	9.1	1.00
Loomis Sayles Investment Grade Bond (LIGRX)	7.5	7.1	0.92
HSBC Investor Core Plus Fixed Income (HBFAX)	7.4	4.4	0.79
Metropolitan West Total Return Bond (MWTRX)	7.3	5.3	0.65
High-Yield Corporate			
John Hancock High Yield (JHHBX)	15.6	11.2	1.00
Pioneer High Yield (TAHYX)	12.5	8.3	1.11
Fidelity Advisor High Income Advantage (FAHYX)	11.6	10.9	1.04
Excelsior High Yield (UMHYX)	9.4	6.0	1.04
Fidelity Capital & Income (FAGIX)	9.2	10.0	0.75
Tax-Exempt			
Alpine Tax Optimized Income (ATOIX)	4.0	3.1	0.59
Vanguard Short-Term Tax-Exempt (VWSUX)	3.5	2.6	0.09
Wells Fargo Adv. Ultra S-Term Muni Inc. (SMUAX)	3.2	2.5	0.72
Columbia Short Term Municipal Bond (NSMIX)	3.2	2.3	0.40
Franklin Federal Lim.-Term Tax-Free Inc. (FFTFX)	3.2	2.0	0.50

NOTES AND SOURCES: Data as of Aug. 23 from Lipper, New York; 877-955-4773. Tickers represent the largest share class. The 10 Biggest Stock Funds are ranked by total net assets. ¹Annualized. ²Closed to new investors. N.A.: Not applicable or not available.

PETROSOUTH ENERGY CORP. | NASDAQ OTC BB: PSEG

U.S. Energy Companies Targeting Colombia's Vast Untapped Oil and Gas Reserves

An increasing number of US oil and gas companies are taking advantage of Colombia's investment-friendly environment and revitalized national security to carve out reliable energy exports for America.



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PetroSouth Overview

HOLDINGS: OVER 133,000 TOTAL ACRES
POTENTIAL RESERVES: 222 MILLION BBL
PRODUCTION: ACTIVELY PRODUCING BOLIVAR 1 WELL
EXECUTIVE: INDUSTRY VETERANS IN US AND COLOMBIA

Colombia Today

SECURITY: 1.9 MILLION TOURISTS IN 2006 (48%)
ECONOMY: 6.8% GDP GROWTH IN 2006
PRODUCTION: 580,000 BBL EQUIVALENT/DAY
EXPORTS: 196,000 BBL/DAY TO US

LUKOIL Overseas Holding, a subsidiary of Russia's largest oil and gas company LUKOIL, recently became the first Russian company to discover oil in the Western hemisphere with their estimated 100 million barrel discovery in Colombia. The Russian's not only beat US oil and gas companies to the Colombian oil, but then sold the oil from their test well to a US buyer. The move is consistent with LUKOIL's drive to infiltrate the North American oil market, having already bought over 2,000 service stations on America's east coast.

Meanwhile, an increasing number of US oil and gas companies, from ConocoPhillips to Chevron, are taking advantage of Colombia's investment-friendly environment and revitalized national security to carve out reliable energy exports for America. Colombia already exports 196,000 barrels of oil to the US every day*, and that number, along with foreign investment, is likely to grow, given that Business Week recently identified Colombia as an "extreme emerging market." Sweetening the pot is Colombia's 4.5 trillion cubic feet of natural gas and total proved oil reserves of 1.5 billion barrels** along with CIBC and Goldman Sachs indicating $100-a-barrel oil may be only a few months away (Bloomberg, July 23/07).

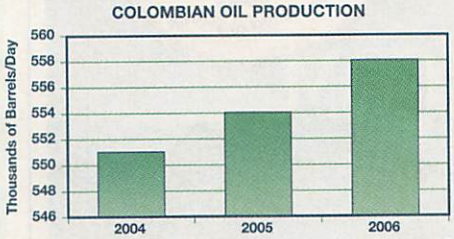
Among those companies actively securing and producing Colombian oil for export to America is PetroSouth Energy Corp., a publicly traded company based in Houston, Texas. The company's chairman and 29-year industry veteran explains that Colombia is currently one of the friendliest South American countries in terms of oil and gas regulations and royalties, making it easier for PetroSouth to increase shareholder value. PetroSouth's CEO, a geologist and oil executive with 20 years industry experience in Colombia, runs the company's Colombian operations base in Bogotá, situated just between PetroSouth's two projects.

To the northeast is the company's 25,000-acre Buenavista Block project, complete with the currently producing Bolivar 1 oil well and total potential reserves of over 13 million barrels of oil. The Buenavista Block is located only 38 miles northwest of Colombia's largest oil fields, the Cusiana/Cupiagua complex, discovered and operated by industry giant BP.

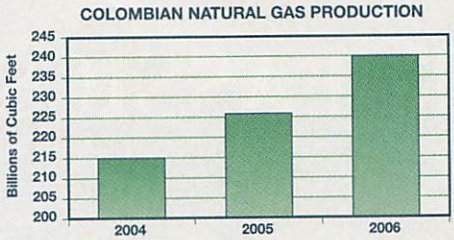
The PetroSouth team is now planning to further exploit its actively producing Buenavista zone by drilling a second well in Q3 2007. To the southwest is PetroSouth's 108,333-acre Talora Block project with total potential reserves of 209 million barrels of oil. As with the company's other project, the Talora Block is ideally located close to actively producing oil fields. Just southeast is the Guando field, operated by national Brazilian oil company and industry giant Petrobras, producing 33,000 barrels of oil per day with total recoverable reserves of about 117 million barrels.

Despite their success to date, PetroSouth continues pursuing additional Colombian oil and gas opportunities so the next big discovery just might go to an American company. With combined potential reserves of 222 million barrels of oil and an established producing oil well under the guidance of a strong energy executive, PetroSouth Energy Corp. (NASDAQ OTC BB: PSEG) is a high-impact public company that offers shareholders an exceptional early stage opportunity to participate in creating secure energy exports to America.

COLOMBIAN OIL PRODUCTION



COLOMBIAN NATURAL GAS PRODUCTION



Data Source: BP Statistical Review of World Energy, June 2007

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* US Energy Information Administration (2005 numbers) ** CIA World Factbook

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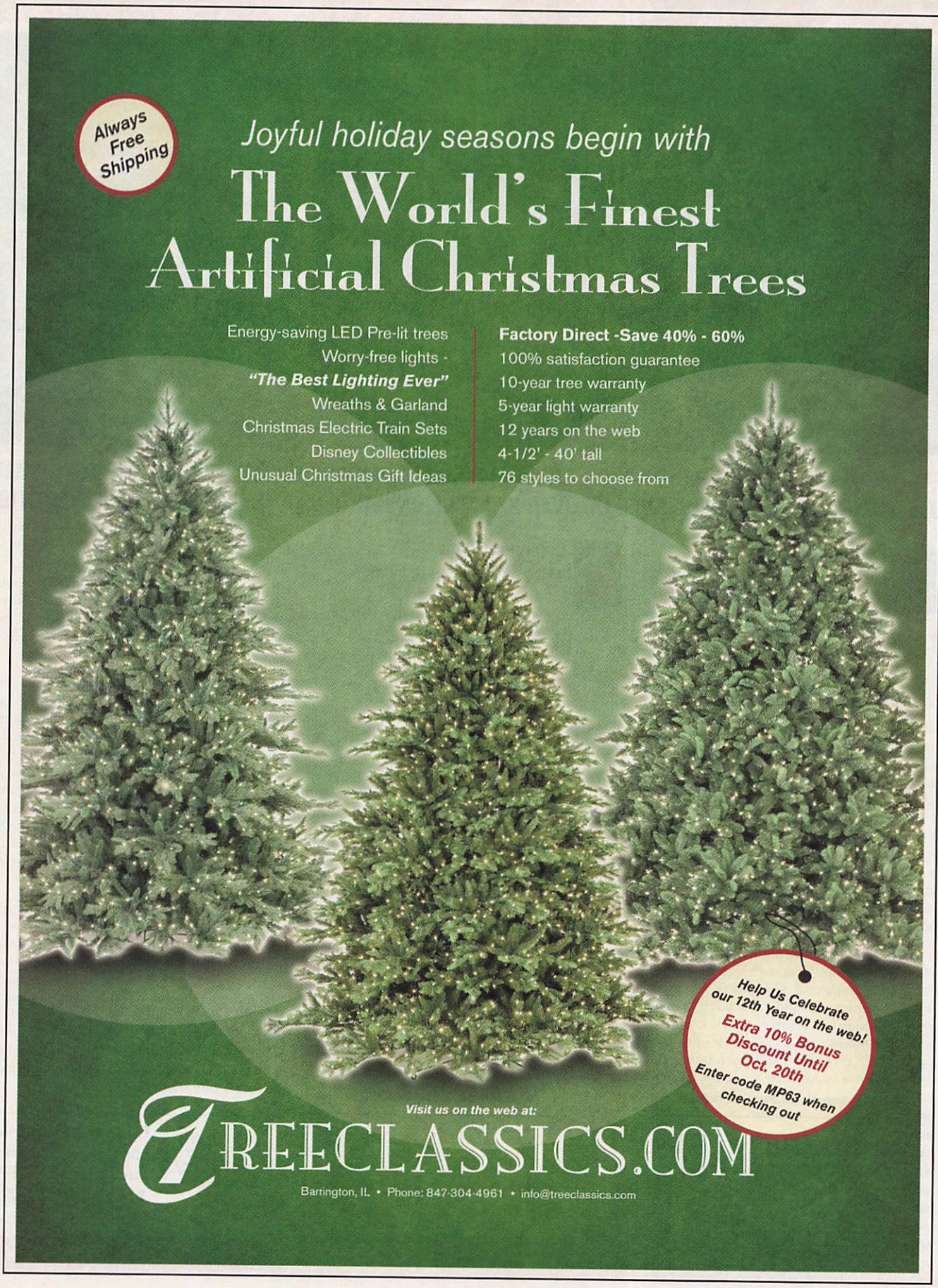
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U.S. Government Calls For Increases to Domestic Oil Production and Strategic Petroleum Reserves

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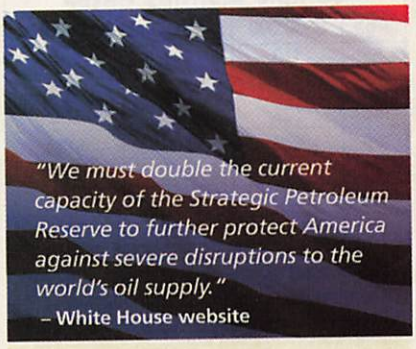

"We must double the current capacity of the Strategic Petroleum Reserve to further protect America against severe disruptions to the world's oil supply."
– White House website

Sun Cal Energy, Inc. | NASDAQ **OTC BB: SCEY**

Surrounded by daily oil production of over 500,000 barrels, Sun Cal Energy, Inc. is a high growth public company focused on providing secure energy solutions to America.

While every day we hear about another of tomorrow's potential answers to the U.S. energy deficit – whether it's ethanol, fuel cells, or wind power – President Bush recently called on the nation to step up domestic oil production for today's energy needs while doubling the Strategic Petroleum Reserve to protect America against severe oil supply disruptions.

Answering the cry for tangible domestic energy solutions are oil and gas explorers and producers adding to America's rich history of petroleum production, as with Chevron's recent Gulf of Mexico discovery of up to 15 billion barrels of oil that is expected to produce 800,000 barrels of U.S. oil a day. Not surprisingly, Chevron's stock jumped 12.5% after the announcement.

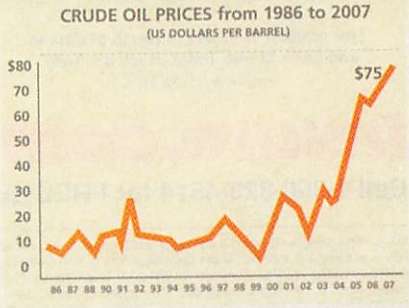
Following the same pattern of exploring America's proven oil and gas reserves is Sun Cal Energy, Inc., a publicly traded company with offices in San Francisco. To date, Sun Cal's strategy of seeking low-risk, high-reward oil and gas opportunities appears to be working. A third-party geological report on Sun Cal's California exploration project estimates its recoverable reserve potential to be up to 75 million barrels of oil. Even at $50/barrel, that still translates into $3.75 billion.

Such large-scale numbers are common for the enviable region of Sun Cal's California Prospect. The prolific oil and gas province, known as the San Joaquin Basin, contains 18 giant oil fields (production > 100 million barrels each) and four super giants (production > 1 billion barrels each). Surrounding Sun Cal's 400-acres are major industry players, such as Chevron and Occidental Petroleum, producing over 500,000 barrels of American oil daily. The value of Sun Cal's California project is further bolstered by 3D seismic and well data confirming the presence of a reservoir and previously discovered hydrocarbons.

At a Glance

- **Sun Cal Energy, Inc.**
- **Oil & Gas Exploration**
- **Pot. Reserves up to 75 MMBO**
- **Area Production of 500K bbl/day**
- **Active Drilling Program**

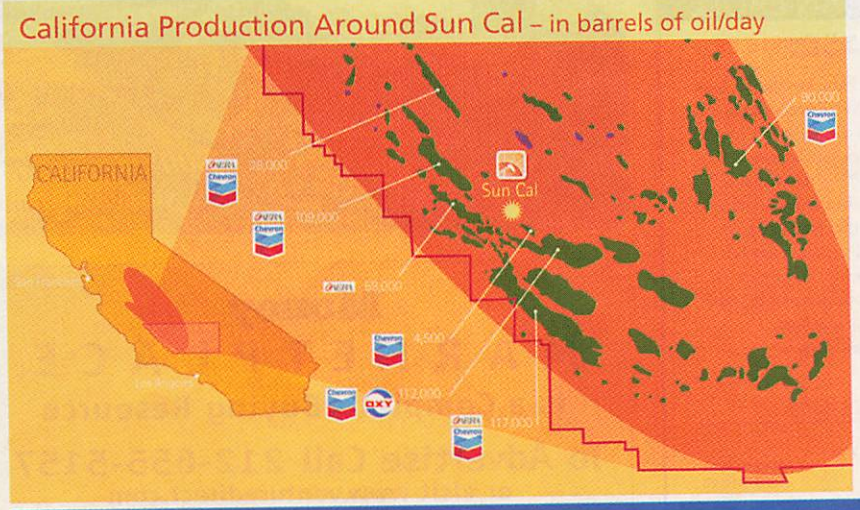
Then there's Sun Cal's active drilling program. The company owns an overriding royalty interest in wells drilled by Marathon Oil on Sun Cal's 1,200-acre project in Oklahoma's Springer Morrow play, the largest play in the State and Mid-Continent. Marathon Oil (Market Cap: $44.69 billion) has already drilled one successful well on Sun Cal's property while a second well is scheduled for drilling and testing to begin by August 2007.



Sun Cal's attractive drilling program also includes a 21,000-foot test well planned in Q4 2007 on the company's seismically defined Breton Sound Prospect in Louisiana's Tuscaloosa trend. The Tuscaloosa has produced natural gas since the 1970's, with average reserves per field being around 250 billion cubic feet (~$1.5 billion at $6 gas). And according to the US Geological Survey (February 2007), the Tuscaloosa's undiscovered resources are still considerable at up to 27 trillion cubic feet of gas.

Sun Cal's management team of experienced oil and gas industry veterans explains that their drilling program leaves the high cost of drilling to other players in the area so the company can minimize its up-front cash requirements, effectively increasing ROI and building shareholder value. And with the Department of Energy reminding us that oil and gas represents two-thirds of the energy currently used by Americans, the timing for Sun Cal to provide secure domestic energy sources to America couldn't be better.

With major potential reserves in a proven, prolific oil and gas region, and an active drilling program underway, **Sun Cal Energy, Inc.** (NASDAQ OTC BB: SCEY) is a high-impact public company that offers shareholders an exceptional early stage opportunity to participate in several of America's top emerging energy plays.



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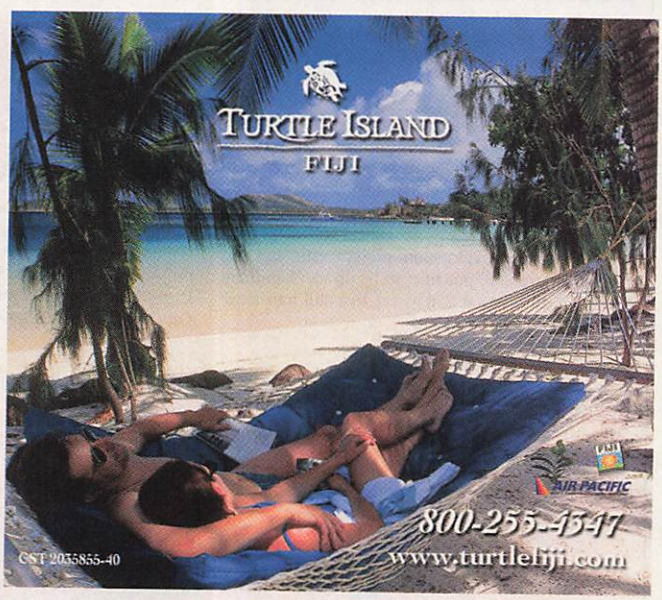

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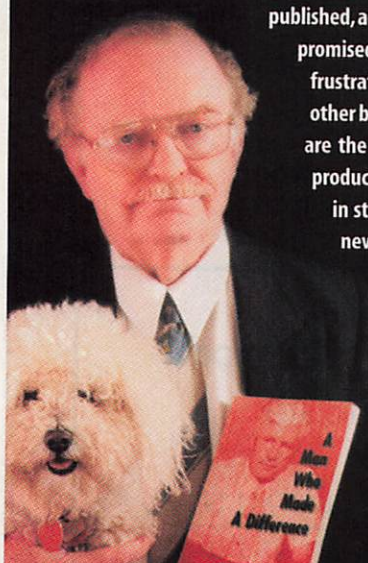

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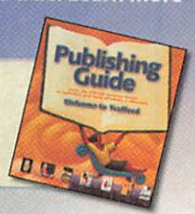

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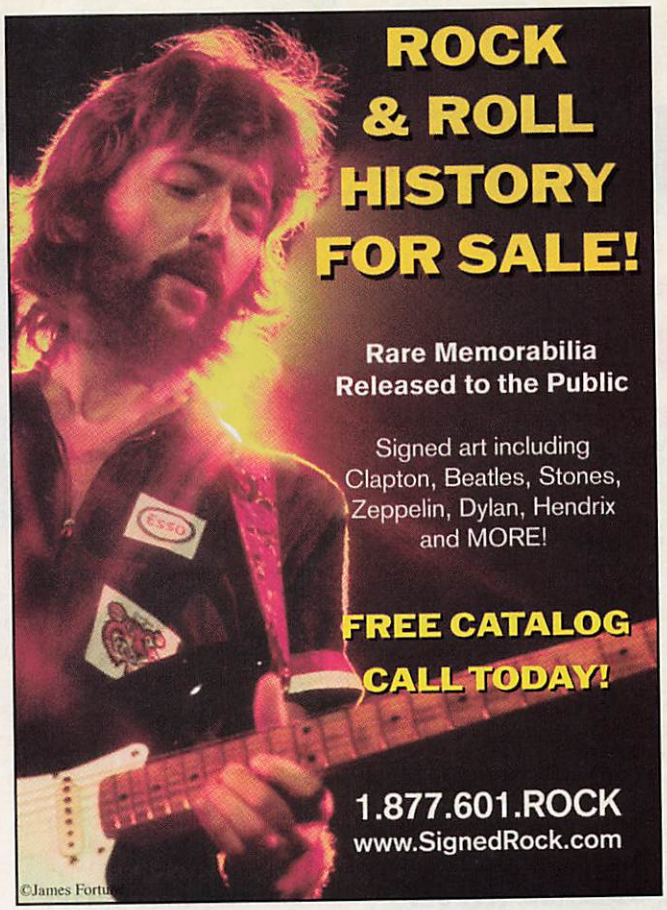
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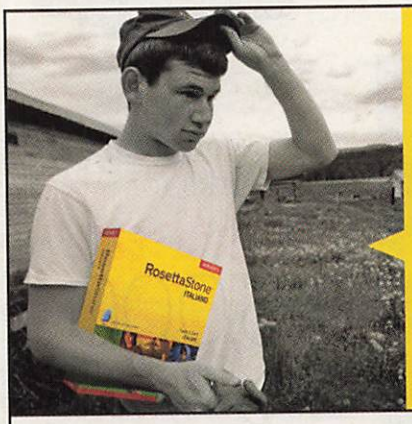

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From "35 Minutes to Riches"
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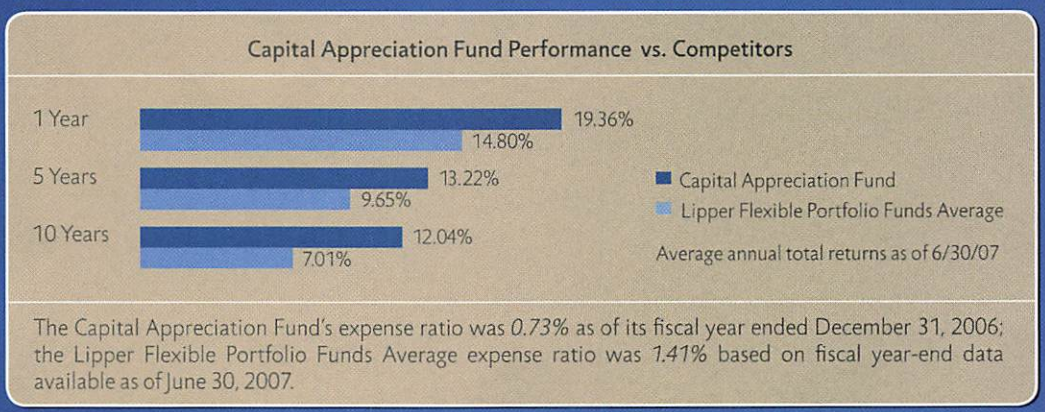

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